

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED June 30, 2018

Issued by:
Finance Department

Muhammed Owusu
Finance Director

Prepared by:
Finance Department

CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED June 30, 2018

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INTRODUCTORY SECTION



OFFICE OF THE CITY MANAGER

November 29, 2018

Mayor, City Commissioners and Citizens of the City of Covington, Kentucky:

We are pleased to present the City of Covington, Kentucky's (City) Comprehensive Annual Financial Report (CAFR), for the fiscal year ended June 30, 2018. This report is intended to provide informative and relevant financial data to the residents of the City, the City Commission, investors, creditors and any other interested reader. It includes all statements and disclosures necessary for the reader to obtain a thorough understanding of the City's financial activities. The reader should pay particular attention to the required Management's Discussion and Analysis- a narrative overview and analysis of the financial statements – included in this document. Any individual with comments or questions concerning this report is encouraged to contact the City's Finance Department at (859) 292-2180. This report may also be found online at www.covingtonky.gov/financials

State law requires that all general-purpose local governments publish by February 1st immediately following the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in accordance with the implementation of Governmental Accounting Standards Board (GASB) Statement 34, and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the CAFR for the City for the fiscal year ended June 30, 2018.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and fairly presents the financial position and results of the operations of the various funds and component units of

the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included in this report.

The City's financial statements have been audited by RFH Certified Public Accountants, with a local office in Lexington, KY. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, involving the administration of Federal awards. These reports are available in the City's Single Audit report, attached as an addendum to the CAFR.

GAAP requires management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City, founded in 1815, is located in the northern most part of the state, situated in Kenton County and is part of the Northern Kentucky Region, which ranks as one of the top growth areas in Kentucky. The City currently occupies a land area of 13.1 square miles and serves an estimated population of 40,797 based on the 2016 U.S. Census population estimates (<http://www.census.gov>). The City of Covington is empowered to levy numerous taxes and fees. Its major revenue sources include an occupational license tax levied on gross wages and net profits of businesses, an insurance premium license fee and a property tax on both real and personal properties.

The City operates under the City Manager form of government. Legislative authority is vested in the City's Board of Commission (Board), consisting of the Mayor and four Commission members. The Board is responsible for among other tasks, approving ordinances, adopting the budget, appointing members to various boards, and approving the hiring of all full time employees. The City Manager reports directly to the Board and is responsible for carrying out its policies and ordinances, the development of short and long

range planning, capital improvement programs, and the running of day-to-day operations of the City. The Commissioners are elected on a non-partisan basis. The Mayor serves a four-year term and the Commissioners each serve a two-year term.

The City provides a full range of services including full-time professional police and fire services; advanced life support emergency services; street maintenance and improvement; waste and recyclable materials collection services; a full range of recreational areas and activities; cultural events; planning and zoning; housing rehabilitation and development; and public nuisance and zoning code enforcement. In addition to these activities, the governing body is responsible for funding the Employees' Retirement Fund and the Police and Firemen's Retirement Fund.

The City's annual budget serves as the foundation for financial planning and control. Budget targets are set for each City department based on current revenue estimates and adjusted for current trends. All departments are required to submit budget requests for appropriation to the City Manager. The budget requests must be within budget targets. The City Manager uses these requests as the starting point for developing a recommended structurally balanced budget. The City Manager then presents the recommended budget to the Board of Commissioners for review no less than 30 days prior to the end of the fiscal year. A structurally balanced budget is required by State law and the Kentucky Constitution. The final budget is adopted prior to July 1 of each year. The appropriated budget is prepared by fund and department (e.g., police). Department heads may make transfers of appropriations within a department with the approval of the City Manager, or his designee. The City Manager cannot make transfers of appropriations between funds without the approval of the Board of Commission. Expenditures may not legally exceed budgeted appropriations at the fund level. Any revisions to the budget that would alter total revenues and total expenditures of any fund must be approved by the Board of Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Information Useful in Assessing the Economic Condition

The information presented in the financial statements is perhaps best understood when it is considered from the perspective of the environment within which the City operates.

The City has maintained its efforts in developing economic resources in the Greater Cincinnati/Northern Kentucky region and has nurtured important partnerships along the way, including the Catalytic Development Funding Corporation, Northern Kentucky Tri-County Economic Development Corporation, and the Northern Kentucky Chamber of Commerce. The business friendly attitude of Covington's elected and appointed officials and other community leaders over the past nine years has positioned the City for economic growth in the foreseeable future.

Like all Cities in Kentucky, Covington is reliant on economically sensitive revenue. The City's revenue sources are dictated by the Commonwealth of Kentucky. Occupational license fees (payroll tax and net profit taxes) represent 56% of all General Fund Revenue.

In fiscal year 2018, the City realized a slight uptick in property tax revenue driven primarily by increased property valuations and new growth. Since 2013, total taxable assessed value has increased by 7%. The City also recognized an increase in payroll tax revenue of 4.0% over fiscal year 2017.

The City's current unemployment rate is 4.3%, which is 0.6% higher than the US rate of 3.7%. The City is taking steps to attract prospective businesses that will help grow local jobs.

City leadership has established a culture focused on professionalism and customer service. Departments have been reorganized to eliminate duplication, create clear lines of decision-making and increase accountability. Vacant leadership positions have been filled. A communications department established to increase information flow to residents, engage residents and employees alike, and deepen residents understanding of the challenges facing City Hall. A renewed focus on making City Hall more efficient, responsive and strategic, like using data analytics to help improve service delivery has been instituted. Additionally, the City is re-examining operations including the use of tax incentives to foster development, best use for the soon-to-be vacant IRS site and reducing the stable of dilapidated buildings to put those properties back on the tax rolls. All these actions are fueling a renewed sense of excitement in the City.

Once considered a place whose best days were in its gritty past, Covington is developing a new reputation for activity sidewalks and "quirky" establishments: A donut shop open only in the evenings, a bagel place that sells only at a walk-up "windough," a bar where patrons can throw axes, and a brewery whose taproom bustles with new flavors and visiting retail partners.

Many exciting residential and commercial developments are either under construction or planned throughout the City, and employers are once again moving their operations to take advantage of the City's charm and urban living options. With nearly 500 apartments either planned, under construction, or completed in 2018, the City continues to partner with community organizations, business stakeholders, and the development community to spur its renaissance.

The following is a listing of projects completed or started in 2018:

Completed projects in 2018:

Duveneck Square: The \$17 million Phase I brought a 110-unit market-rate apartment building with 5,000 square feet of first-floor commercial space into the heart of Covington's Pike Street corridor. Completed in March 2018, the project is 80 percent leased to date, well above developers' lease projections and demonstrating the pent-up residential demand in Covington.

Road ID: Road ID, a Northern Kentucky family-owned business that manufactures custom identification equipment, with a staff of 72, relocated its headquarters to the City during 2018. Road ID's \$4 million renovation restored a historic property in the Madison Avenue corridor and complemented the development activity happening nearby. Renovations started in summer 2017 and employees moved into the renovated space in Spring 2018.

Stephen Gould Co: The Stephen Gould Company relocated its suburban regional Cincinnati headquarters to the City in February 2018. The company was attracted by the City's renaissance and desire to help redevelop a historic property. The company signed a 10-year lease and will ultimately bring 25 employees to the City.

Projects under construction in 2018:

Bavarian Brewery: This is a \$25 million redevelopment of the former Bavarian Brewing property into 80,000 square-foot office space for Kenton County's administrative campus. After completion of the Bavarian Brewery site in summer 2019, the developer will redevelop the County's existing building at 303 Court St. into 100+ residential units and first-floor retail space.

The Bradford: The Bradford on Scott is a \$2.3 million adaptive re-use of a 14,800 square foot, three-story historic building into five condominium units and five street-level commercial spaces. The units range in size from 1,800-2,500 square feet and all units will offer two bedrooms with a study and roof decks. Project completion expected December 2018.

Duveneck Square Phase II: The \$40 million Phase II will complement Phase 1 (completed in Spring 2018) and will focus on developing a 84,000 square foot Class A Office building, 700-space public parking garage, streetscape and plaza improvements to Pike Street corridor and a mixed-use building that includes retail/business service space and approximately 100 apartments. Discussions are ongoing to land a large office user at the site and bring 300 to 400 jobs.

501 Main: The \$40 million River Haus broke ground in Fall 2017 and will add 189 luxury apartments, a parking garage and 4,000 square feet of commercial space to MainStrasse Village when completed. This premier development is within easy walking distance of MainStrasse's fantastic amenities and dining scene.

John R. Green: This \$36 million, 182-unit urban-style, Class A, multi-family community will be located in the center of MainStrasse Village. In addition to bringing new residents and businesses to the neighborhood, the development will provide the public with 90 new public parking spaces for visitors and businesses alike.

The Madison Flats: The Madison Flats includes the renovation of 13 one-bedroom apartments and 5 commercial storefronts. Orleans Development, the developer hopes it fills the need for “small, economical, and beautifully designed apartments.” Rents are expected to be affordable, between \$600 and \$875 per month.

Riverfront Commons: A 1-mile, 8-foot-wide path designed for pedestrians that will stretch along the Ohio River is under construction. It starts from the site of the former Covington Landing at the foot of Madison Avenue, going west underneath Clay Wade Bailey Bridge to KY 8/Highway Avenue by the Hampton Inn. Eventually, this pedestrian path will connect Northern Kentucky’s river cities and help attract new residents and employers.

Licking River Greenway: This trail sits on top of the levee along the Licking River. It will connect five neighborhoods on the City’s eastside from the Ohio River to Holmes High School.

The preparation of this CAFR was made possible by the dedicated service of the entire staff of the Department of Finance and various staff of other departments. Each member has our sincere appreciation for the contributions made in the preparation of this report. We also acknowledge the efforts of RFH, CPAs for their work in preparing this report. Recognition is also given to the Mayor and Commissioners for their unfailing interest, support, and integrity in guiding the City’s financial operations.

Respectfully submitted,



David W. Johnston
City Manager



Muhammed K. Owusu
Finance Director

City of Covington, Kentucky
Elected and Appointed Officials
June 30, 2018

Elected Officials

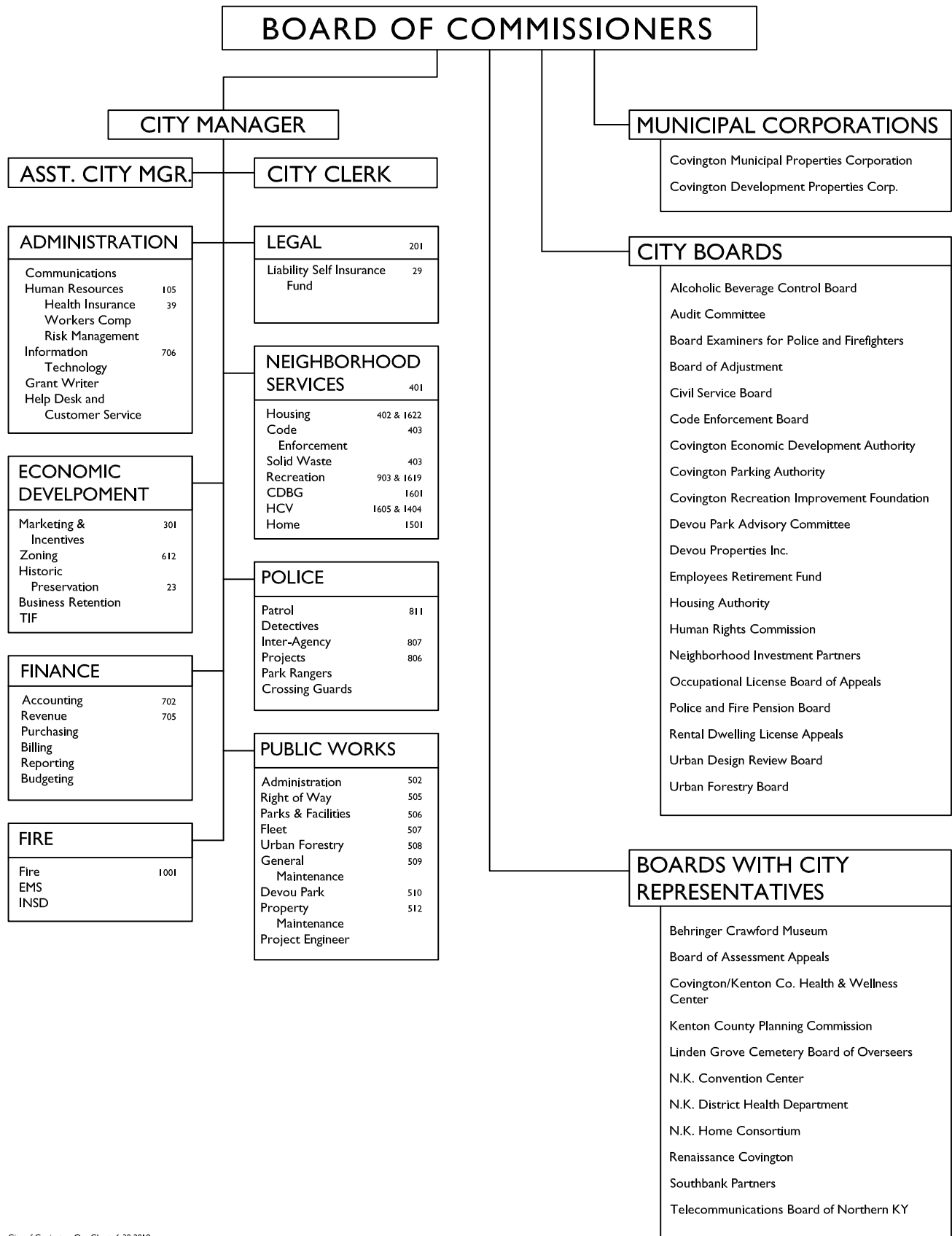
Mayor	Joseph U. Meyer
Commissioner/Mayor Pro Tem.....	Michelle Williams
Commissioner	Tim Downing
Commissioner	Jordan Huizenga
Commissioner	William Wells

Appointed Officials

City Manager	David W. Johnston
Assistant City Manager.....	Frank Warnock
Finance Director	Muhammed Owusu
Neighborhood Services Director	Ken Smith
City Clerk.....	Margaret Nyhan
Chief of Police	Robert Nader
Fire Chief.....	Mark Pierce
Public Works Director	Rick Davis
Economic Development Director	Tom West
Human Resources Director	Jo Ann Simpson
Communications Director.....	Dan Hassert
City Solicitor.....	Michael Bartlett

COVINGTON, KENTUCKY

ORGANIZATION CHART





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Covington
Kentucky**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Mayor and City Commissioners
City of Covington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Covington, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Devou Properties, Inc. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Devou Properties, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Implementation of New GASB Accounting Standards

As discussed in Notes 10 and 14 to the financial statements, effective July 1, 2017 the City adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules and the OPEB schedules on pages 12-23, 75-78, and 79-86 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Kentucky's basic financial statements. The introductory section, combining and individual fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018, on our consideration of the City of Covington, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Covington, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
November 29, 2018

**City of Covington, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

(Unaudited)

The following is a narrative overview and analysis of the financial activities of the City of Covington, Kentucky for the Fiscal Year ending June 30, 2018. This discussion and analysis serves as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Financial Highlights

The City's financial highlights for the fiscal year ended June 30, 2018 include:

- The City's fiscal year 2018 carry-over is \$1,641,469 resulting in a General Fund balance at year-end of \$14,595,499.
- The City recognized an increase in payroll tax revenue of 4.76% over fiscal year 2017.
- The City recognized a decrease in net profit revenue of 10.36% over fiscal year 2017.
- The City's insurance license fee decreased to \$7,592,489 in fiscal year 2018, a decrease of \$317,414 or 4.01% over the previous year.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

Government-wide Financial Statements. The *government-wide financial statements* provide readers with a broad overview of the City's finances.

The *Statement of Net Position* presents financial information on all of the City's assets/deferred outflows of resources and liabilities/deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position can serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information regarding changes to the City's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include functions of the City, police, fire, public improvements, parks and recreation, and general administration services, that are principally supported by licenses, fees, taxes and intergovernmental revenues (*governmental activities*).

The government-wide financial statements include the *primary government* and Devou Properties, Inc., a legally separate non-profit organization. Financial information for Devou Properties, Inc. is reported separately from the financial information presented for the primary government itself. The Municipal Properties Corporation, although a legally separate entity, functions as a department of the City and therefore has been included as an integral part of the primary government.

Fund Financial Statements. A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

Governmental Funds: Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements, however, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Pension Obligation 2004 Fund, Neighborhood Stabilization Program Fund, and the Capital Improvement Fund, which are considered to be major funds. Data from other governmental funds are combined into a single aggregated presentation.

The City adopts an annual appropriation budget for its governmental funds. A budgetary comparison statement is provided for general and special revenue major funds to demonstrate compliance with budgets.

Proprietary Funds: Proprietary funds can be classified into two subcategories; enterprise funds and internal service funds. The City does not have any enterprise funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the management of the City's risks and for medical and dental coverage for its employees. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Because both of these services benefit governmental functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City is trustee, or fiduciary, for two retirement funds; the Police and Firemen's Retirement Fund and the Employee's Retirement Fund. Both of these funds are closed pension funds held solely for trust beneficiaries.

Notes to the Financial Statements: The notes to financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements.

Financial Analysis of the Government-Wide Financial Statements

The *Statement of Net Position* presents information on the City's assets, liabilities, and deferred outflows and inflows of resources. *Net position (deficit)* is the difference between (a) assets and deferred outflows

of resources and (b) liabilities and deferred inflows of resources. Increases or decreases in net position can serve as a useful indicator of the overall health of the City's financial position.

Net position, over time, may serve as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$40,322,878, at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		
		(as restated)	
	2018	2017	Change
Current and other assets	\$ 41,681,039	\$ 39,375,350	\$ 2,305,689
Capital assets	69,071,859	68,701,968	369,891
Total assets	110,752,898	108,077,318	2,675,580
Deferred outflows of resources	37,376,491	15,960,103	21,416,388
Long-term liabilities:			
Net pension liability	88,166,289	68,874,286	19,292,003
Net OPEB liability	29,364,452	18,454,157	10,910,295
Other long-term amounts	57,257,196	62,356,472	(5,099,276)
Other liabilities	10,407,791	9,623,600	784,191
	185,195,728	159,308,515	25,887,213
Deferred inflows of resources	3,256,539	1,210,415	2,046,124
Net position:			
Net investment in capital assets	27,309,024	23,790,740	3,518,284
Restricted	4,892,341	5,854,839	(962,498)
Unrestricted (deficit)	(72,524,243)	(66,127,088)	(6,397,155)
Total net position	\$ (40,322,878)	\$ (36,481,509)	\$ (3,841,369)

By far, the largest portion of the City's net position (\$27,309,024) reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and improvements, machinery and equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$4,892,341) represents resources that are subject to use restrictions from external sources. The remaining balance is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

As noted earlier, increases and decreases of net position can serve as a useful indicator of changes in a government's financial position. In Fiscal Year 2018, liabilities and deferred inflows of resources exceed assets and deferred outflows of resources by \$40.3 million. While total assets increased from the prior fiscal year (fiscal year 2017) by \$2,675,580, total liabilities also increased by \$25,887,213 driven primarily by increases in the net pension and other post employment benefit (OPEB) liabilities, pursuant to GASB 68 and 75, respectively. The changes in pension obligations are primarily the result of changes in state actuarial estimates and policy changes. The 2017 deferred outflows of resources, net other post-employment benefit (OPEB) liability and unrestricted net position were restated for an estimate of the City's proportionate share of the net OPEB liability related to the County Employees' Retirement System (CERS).

Statement of Activities

	Governmental Activities		
		(as restated)	
	2018	2017	Change
Program revenues:			
Charges for services	\$ 6,891,828	\$ 6,915,460	\$ (23,632)
Operating grants and contributions	11,087,041	10,178,394	908,647
Capital grants and contributions	1,711,776	456,927	1,254,849
Total program revenues	19,690,645	17,550,781	2,139,864
General revenues:			
Taxes	46,941,402	45,759,262	1,182,140
Investment earnings	208,636	222,575	(13,939)
Miscellaneous	664,949	368,406	296,543
Total general revenues	47,814,987	46,350,243	1,464,744
Total revenues	67,505,632	63,901,024	3,604,608
Expenses:			
General government	7,944,679	6,604,320	1,340,359
Police	20,397,256	14,453,789	5,943,467
Fire	19,695,653	13,176,016	6,519,637
Public improvements	10,382,962	8,784,729	1,598,233
Community development	10,371,116	10,312,912	58,204
Parking garage	900,712	868,353	32,359
Interest on long-term debt	1,654,623	1,984,708	(330,085)
Total expenses	71,347,001	56,184,827	15,162,174
Change in net position	(3,841,369)	7,716,197	(11,557,566)
Net position beginning of year, as restated	(36,481,509)	(44,197,706)	7,716,197
Net position end of year	\$ (40,322,878)	\$ (36,481,509)	\$ (3,841,369)

In Fiscal Year 2018, government-wide revenues increased from Fiscal Year 2017 by approximately \$3.6 million and government-wide expenses increased by approximately \$15.2 million.

The major components of the government-wide revenue increases were:

- Program revenues increased in Fiscal Year 2018 from Fiscal Year 2017 due to:
 - An increase in operating grants and contributions
 - An increase in capital grants and contributions
- Taxes Revenue was higher in Fiscal Year 2018 than Fiscal Year 2017 primarily due to
 - An increase in Payroll Tax collected of \$1,194,444

The major components of changes in government-wide expenses were:

- Police and Fire expenditures were higher in Fiscal Year 2018 than Fiscal Year 2017 primarily due to:
 - Recognition of expenditures related to the City's proportionate share of the CERS pension and OPEB expenses made in the current year were larger than in the prior year
 - An increase in depreciation charged to the function during Fiscal Year 2018 over Fiscal Year 2017
- General government expenditures were higher in Fiscal Year 2018 than Fiscal Year 2017 due primarily to:
 - The reorganization of City Departments
 - Hiring of several senior City leadership staff

Financial Analysis of Governmental Funds

At June 30, 2018, the City's governmental funds reported combined fund balances of \$23,796,854, an increase of \$2,469,195 from the prior fiscal year. The majority of this increase in the major funds occurred in the General Fund, which recorded a fund balance increase of approximately \$1.6 million.

Approximately 34% of the \$23,796,854 (\$8,076,884) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is non-spendable, restricted, or committed. Non-spendable fund balance of \$128,902, cannot be spent either because it is in non-spendable form or because there are legal or contractual reasons it cannot be spent. Restricted funds, \$4,892,341, are amounts that can be spent only for specific purposes e.g. (1) for approved Capital Improvement projects, (2) or restricted by state or federal laws, or (3) or restricted by externally imposed conditions by grantors or creditors.

Committed funds, \$10,698,727, are amounts that can be used only for specific purposes as determined by formal action of the City Commission by ordinance or order. Funds within the Committed category include deposits in accounts per the City's Fiscal Stability Ordinance, O-11-16. The City's Fiscal Stability Ordinance was created to establish and prioritize fiscal stability, sustainability, and growth. The ordinance specifically authorizes a process for ensuring that the City's legal and financial obligations are met by specifying deposit accounts such as the (1) Minimum General Fund – Unreserved Fund - used to meet the general operating expenses of the City including payroll, benefits and other operating expenses when the City experiences a downturn, (2) the Self-insured Liability Fund – used to manage the City's risk exposure for general liability claims against the City, and (3) the Self-insured Employee Health Plan Fund – used to provide for reliable funding of the City's Self-Insured Employees Health Plan.

The Fiscal Stability Ordinance also reaffirmed previous ordinances that established deposit accounts specific to purposeful spending. The ordinances reaffirmed by the Fiscal Stability Ordinance and contributing to the Committed category include:

- Fleet, Equipment, Technology, Facilities and Other Capital Projects Fund – used to provide for the City's business needs so that services can be efficiently and effectively maintained and delivered, including fleet, equipment, technology, facilities, and other capital projects as determined by the Board of Commissioners
- Covington Economic Development Program Fund – used to provide for more reliable funding of economic development projects, programs, and services as recommended to the Board of Commissioners by the Covington Economic Development Authority
- Tax Increment Financing Fund – used to provide for the City's economic development needs dedicating 80% of the City's Incremental Revenues from the City Real Property Ad Valorem Taxes and Occupational Taxes generated within the Tax Increment Financing (TIF) district to economic development activities

CITY OF COVINGTON, KENTUCKY

Balance Sheet
Governmental Funds
June 30, 2018

	General	Pension Obligation 2004 Fund	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 10,040,371	\$ -	\$ -	\$ 3,472,266	\$ 8,497,827	\$ 22,010,464
Cash held in escrow	421,769	-	-	-	-	421,769
Receivables (net of allowance for doubtful accounts):						
Taxes	7,226,416	-	-	-	-	7,226,416
Intergovernmental	123,438	-	-	-	1,738,946	1,862,384
Notes	3,660,000	-	2,463,576	-	546,608	6,670,184
Accounts	77,396	-	-	-	928,353	1,005,749
Due from other funds	2,736,794	-	-	7,363	869,880	3,614,037
Due from fiduciary funds	1,122,264	-	-	-	-	1,122,264
Prepaid items	128,902	-	-	-	8,665	137,567
Total assets	<u>\$ 25,537,350</u>	<u>\$ -</u>	<u>\$ 2,463,576</u>	<u>\$ 3,479,629</u>	<u>\$ 12,590,279</u>	<u>\$ 44,070,834</u>
Liabilities:						
Accounts payable	\$ 474,119	\$ -	\$ -	\$ 512,262	\$ 1,036,912	\$ 2,023,293
Accrued liabilities	2,274,427	-	-	-	98,845	2,373,272
Due to other funds	2,324,707	-	-	43,269	2,514,438	4,882,414
Unearned revenue	311	-	-	-	1,720,193	1,720,504
Total liabilities	<u>5,073,564</u>	<u>-</u>	<u>-</u>	<u>555,531</u>	<u>5,370,388</u>	<u>10,999,483</u>
Deferred Inflow of Resources:						
Unavailable revenue	5,868,287	-	2,463,576	-	942,634	9,274,497
Fund balances:						
Nonspendable	128,902	-	-	-	-	128,902
Restricted	421,769	-	-	2,924,098	1,546,474	4,892,341
Committed	5,530,433	-	-	-	5,168,294	10,698,727
Unassigned	8,514,395	-	-	-	(437,511)	8,076,884
Total fund balances	<u>14,595,499</u>	<u>-</u>	<u>-</u>	<u>2,924,098</u>	<u>6,277,257</u>	<u>23,796,854</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 25,537,350</u>	<u>\$ -</u>	<u>\$ 2,463,576</u>	<u>\$ 3,479,629</u>	<u>\$ 12,590,279</u>	<u>\$ 44,070,834</u>

The City also recognized an increase in payroll tax revenue of 4.76% over Fiscal Year 2017. The City's 2017-2018 budget process did not reduce staff or departmental expenditures. The City's Fiscal Year 2018 carry-over is \$1,641,469 resulting in a General Fund balance at the end of year of \$14,595,499. A significant driver to this year's carry-over includes an increase in general fund revenues and tighter controls on expenditures.

CITY OF COVINGTON, KENTUCKY

Statement of Revenues, Expenditures and Changes

in Fund Balances

Governmental Funds

Fiscal Year Ended June 30, 2018

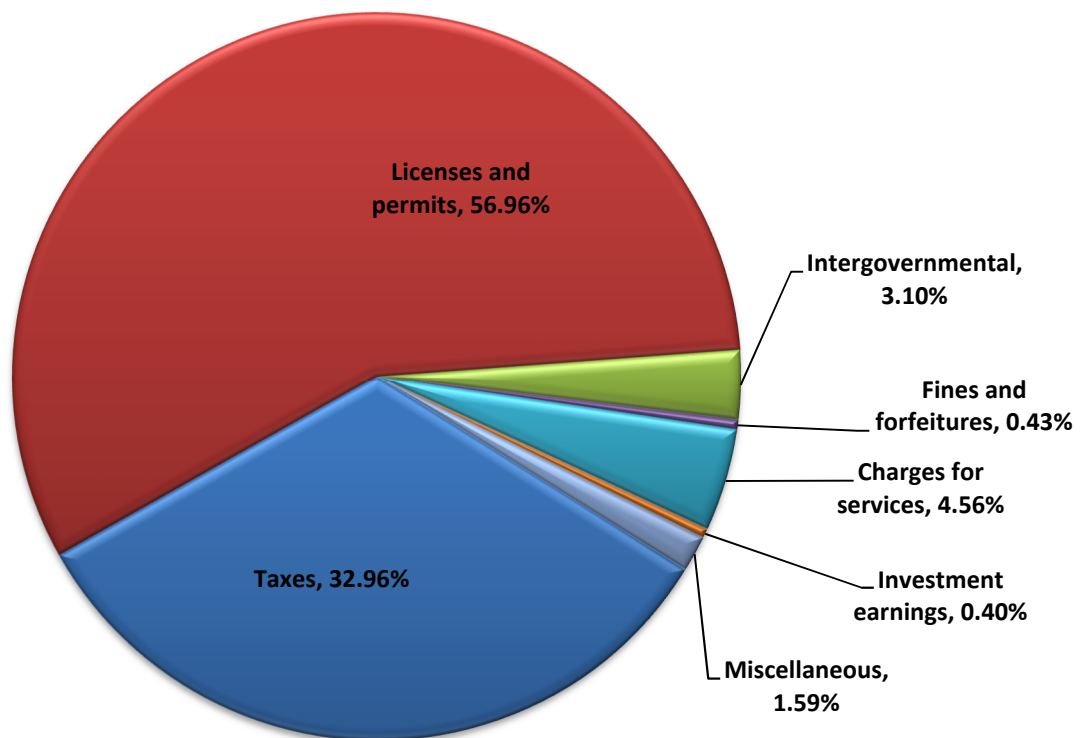
	General	Pension Obligation 2004 Fund	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 17,119,584	\$ -	\$ -	\$ -	\$ -	\$ 17,119,584
Licenses and permits	29,590,400	-	-	-	-	29,590,400
Intergovernmental	1,611,053	-	-	-	11,198,043	12,809,096
Charges for services	2,369,629	-	-	-	3,043,520	5,413,149
Fines and forfeitures	221,225	-	-	-	-	221,225
Investment earnings	207,207	-	-	252	1,177	208,636
Miscellaneous	825,863	-	-	-	1,090,221	1,916,084
Total revenues	<u>51,944,961</u>	<u>-</u>	<u>-</u>	<u>252</u>	<u>15,332,961</u>	<u>67,278,174</u>
Expenditures:						
Current:						
General government	5,425,874	-	-	-	589,366	6,015,240
Police	14,631,134	-	-	-	665,034	15,296,168
Fire	13,725,303	-	-	-	630,067	14,355,370
Public improvements	6,064,789	-	-	2,219	2,049,588	8,116,596
Community development	1,646,371	-	-	-	7,977,086	9,623,457
Parking garage	900,712	-	-	-	-	900,712
Debt service:						
Principal	3,500,629	-	-	-	432,348	3,932,977
Interest	1,601,784	-	-	-	80,941	1,682,725
Capital outlay	110,816	-	-	1,777,812	2,714,770	4,603,398
Total expenditures	<u>47,607,412</u>	<u>-</u>	<u>-</u>	<u>1,780,031</u>	<u>15,139,200</u>	<u>64,526,643</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,337,549</u>	<u>-</u>	<u>-</u>	<u>(1,779,779)</u>	<u>193,761</u>	<u>2,751,531</u>
Other financing sources (uses):						
Transfers in	1,445,074	-	-	327,740	5,134,299	6,907,113
Transfers out	(4,208,818)	(401,000)	-	-	(2,647,295)	(7,257,113)
Sale of assets	67,664	-	-	-	-	67,664
Total other financing sources (uses)	<u>(2,696,080)</u>	<u>(401,000)</u>	<u>-</u>	<u>327,740</u>	<u>2,487,004</u>	<u>(282,336)</u>
Net change in fund balances	1,641,469	(401,000)	-	(1,452,039)	2,680,765	2,469,195
Fund balance, beginning of year	12,954,030	401,000	-	4,376,137	3,596,492	21,327,659
Fund balance, end of year	<u>\$ 14,595,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,924,098</u>	<u>\$ 6,277,257</u>	<u>\$ 23,796,854</u>

The following schedules present a summary of the General Fund revenues and expenditures for the current fiscal year.

General Fund Revenues for the Fiscal Year Ended June 30, 2018

	<u>2018</u>	<u>Percent of Total</u>	<u>2017</u>	<u>Percent Change</u>
Taxes	\$ 17,119,584	32.96%	\$ 17,071,793	0.28%
Licenses and permits	29,590,400	56.96%	28,674,704	3.19%
Intergovernmental	1,611,053	3.10%	1,236,954	30.24%
Fines and forfeitures	221,225	0.43%	309,267	(28.47)%
Charges for services	2,369,629	4.56%	3,704,477	(36.03)%
Investment earnings	207,207	0.40%	188,823	9.74%
Miscellaneous	<u>825,863</u>	<u>1.59%</u>	<u>363,853</u>	<u>126.98%</u>
Total Revenue	<u>\$ 51,944,961</u>	<u>100.00%</u>	<u>\$ 51,549,871</u>	<u>0.77%</u>

2018 General Fund Revenues



Revenue increased in Fiscal Year 2018, with total General Fund revenue increasing by \$395,090, or 0.77%, from Fiscal Year 2017 to Fiscal Year 2018. An increase in Payroll License Fees is a strong indicator of job growth in the City. Over the previous fiscal year, Payroll License Fees increased 4.76% or \$1,194,444.

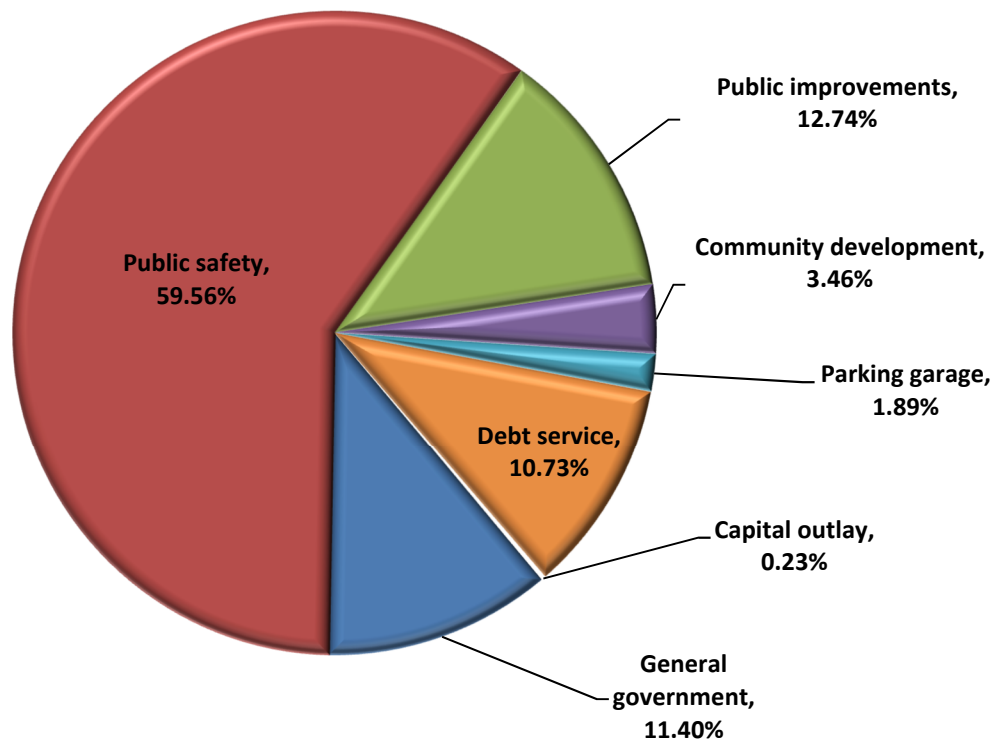
Taxes, which include Real Estate Taxes, Personal Property Taxes, and Insurance Premium Fees increased by \$47,791, or 0.28% from the prior fiscal year. Licenses and permits increased by \$919,696, or 3.19% from the prior fiscal year due to an increase in payroll tax. The City anticipates modest growth to continue into Fiscal Year 2019.

General Fund Expenditures for the Fiscal Year Ended June 30, 2018

	<u>2018</u>	<u>Percent of Total</u>	<u>2017</u>	<u>Percent Change</u>
General government	\$ 5,425,874	11.40%	\$ 5,073,602	6.94%
Public safety	28,356,437	59.56%	26,369,883	7.53%
Public improvements	6,064,789	12.74%	5,130,311	18.21%
Community development	1,646,371	3.46%	2,128,044	(22.63)%
Parking garage	900,712	1.89%	868,353	3.73%
Capital outlay	110,816	0.23%	244,399	(54.66)%
Debt service	5,102,413	10.72%	14,047,789	(63.68)%
Total Expenditures	\$ 47,607,412	100.00%	\$ 53,862,381	(11.61)%

General Fund expenditures decreased in Fiscal Year 2018, with total General Fund expenditures decreasing by \$6,254,969, or 12% Fiscal Year 2018 over Fiscal Year 2017. The decrease is primarily attributable to decreases in expenditures in the community development, capital outlay and debt service functions.

2018 General Fund Expenditures



Capital Assets and Debt Administration

Capital Assets: The City's investment in capital assets for its governmental activities as of June 30, 2018 amounts to \$69,071,859 (*net of accumulated depreciation*), an increase of \$369,891 from the prior fiscal year. This investment includes land and improvements, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in capital assets for the current fiscal year was 0.54% over the prior fiscal year.

Capital Assets at June 30, 2018

(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 14,886,323	\$ 14,800,827
Land improvements	2,117,822	2,072,096
Buildings	18,590,871	13,456,265
Building improvements	3,408,953	3,951,659
Machinery and equipment	786,634	712,322
Vehicles	4,145,984	4,920,945
Infrastructure	23,560,543	22,765,608
Construction in progress	1,574,729	6,022,246
Totals	<u>\$ 69,071,859</u>	<u>\$ 68,701,968</u>

Additional information on the City's capital assets can be found in Note 4.

Long-term Debt: At the close of the current fiscal year, the City had outstanding notes, bonds and capital leases of \$54,387,835, which is backed by the full faith and credit of the City.

Outstanding Long-term Debt Obligations at June 30, 2018

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Bonds and notes	\$ 37,601,864	\$ 40,540,118
Capital Leases	16,785,971	17,791,110
Total	<u>\$ 54,387,835</u>	<u>\$ 58,331,228</u>

The City issues and incurs debt in order to fund capital improvement projects, purchase capital equipment and facilities, and to support economic development. The City's outstanding debt decreased by \$3,943,393, or 7%, over the prior fiscal year. This represents principal payments made during the fiscal year. Also, in fiscal year 2017 and 2018, the City retired several debt issues. The City issued no new debt during fiscal year 2018 and has no plans to issue debt. Additional information on the City's long-term debt can be found in Note 7.

Economic Factors and Next Year's Budget

The budget for Fiscal Year 2019 was developed and adopted by the Board of Commissioners as a structurally balanced budget per Kentucky Revised Statute, KRS 83A.150(7)(c) and the State's Constitution.

Fiscal Year 2019 Goals include:

- Grow revenues without increasing taxes
- Maintain and improve current level of services
- Continue to improve the City's credit rating
- Establish a long-term debt policy
- Establish an investment policy
- Improve public services offered to our citizens
- Support recent reorganization of City departments

Fiscal Year 2019 Assumptions include:

- Balance budget for fiscal year 2019
- "Status quo" base budget
- Grow the City's "rainy day" fund by \$1.9 million and increase other revenues
- Fiscally conservative budget forecast
- Creation of a \$1,804,000 Covington Motor Vehicle Parking Authority budget
- Adding one day captain to the Fire Department
- Adding three additional patrol officers and a crime lab tech to the police department
- No new debt
- Additional part time position for Information Technology
- Additional position created for Human Resources
- \$250,000 IRS study
- \$150,000 for an economic development strategy
- Create position of grant writer and constituent service representative
- Planned 2% wage increase for all non-union employees
- Create position of solid-waste supervisor
- Fund two new part-time code enforcement inspectors
- Invest \$1.3 million to upgrade City public safety radios
- No tax increases
- An increase in the city's employer contribution rate for pension contributions from 31.55% to 35.34% for public safety personnel
- An increase in the City's employer contribution rate for pension contributions from 19.18% to 21.48% for all other personnel

The City was able to successfully develop a Fiscal Year 2019 budget based upon the above goals and assumptions. In addition, the City committed additional funds for several projects including establishing a Neighbor fund, IRS relocation study, establishing a Housing Rehabilitation Assistance program, expanding the rent subsidy/technical assistance program, and funding the City's economic development strategy study. The City also budgeted for excess liability insurance coverage. The City also approved over \$20 million in additional spending for infrastructure improvements and equipment purchases out of capital funding sources.

In fiscal year 2019 the City budgeted a modest increase in Revenues based upon the past three-year trend of 1 – 3% revenue growth.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, 20 West Pike Street, Covington, KY 41011.

BASIC FINANCIAL STATEMENTS

CITY OF COVINGTON, KENTUCKY

Statement of Net Position

June 30, 2018

	Primary Government <u>Governmental Activities</u>	Component Unit <u>Devou Properties, Inc.</u>
Assets		
Cash and cash equivalents	\$ 23,190,211	\$ 2,545,098
Cash held in escrow	421,769	-
Receivables (net of allowance for doubtful accounts)		
Taxes	7,226,416	-
Intergovernmental	1,862,384	-
Notes	6,670,184	-
Accounts	1,005,749	243,171
Due from fiduciary activities	1,122,264	-
Inventory	-	23,134
Prepaid expenses	182,062	16,732
Nondepreciable capital assets	18,578,874	-
Depreciable capital assets, net	<u>50,492,985</u>	<u>118,421</u>
Total assets	<u>110,752,898</u>	<u>2,946,556</u>
Deferred Outflows of Resources		
Deferred outflows - pensions	25,509,668	-
Deferred outflows - OPEB	<u>11,866,823</u>	<u>-</u>
Total deferred outflows of resources	<u>37,376,491</u>	<u>-</u>
Liabilities		
Accounts payable	2,097,296	80,719
Accrued liabilities	2,373,273	295,868
Claims payable	1,510,313	-
Accrued interest payable	242,829	-
Unearned revenue	4,184,080	-
Noncurrent liabilities:		
Due within one year	5,555,716	16,002
Due in more than one year:		
Net pension liability	88,166,289	-
Net OPEB liability	29,364,452	-
Claims payable	1,300,000	-
Other	<u>50,401,480</u>	<u>55,340</u>
Total liabilities	<u>185,195,728</u>	<u>447,929</u>
Deferred Inflows of Resources		
Deferred inflows - pensions	1,402,643	-
Deferred inflows - OPEB	<u>1,853,896</u>	<u>-</u>
Total deferred inflows of resources	<u>3,256,539</u>	<u>-</u>
Net Position		
Net investment in capital assets	27,309,024	118,421
Restricted for:		
Capital improvements	2,924,098	-
Debt service	421,769	-
HUD programs	922,485	-
Other purposes	623,989	-
Unrestricted (deficit)	<u>(72,524,243)</u>	<u>2,380,206</u>
Total net position	<u>\$ (40,322,878)</u>	<u>\$ 2,498,627</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY

Statement of Activities

Fiscal Year Ended June 30, 2018

					Net (Expense) Revenue and Changes in Net Position	
					Primary Government	Component Unit
					Governmental Activities	Devou Properties, Inc.
		Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Functions/Programs						
Primary Government						
Governmental activities:						
General government	\$ 7,944,679	\$ 2,197,465	\$ 100,000	\$ -	\$ (5,647,214)	\$ -
Police	20,397,256	-	1,302,497	-	(19,094,759)	-
Fire	19,695,653	-	657,920	-	(19,037,733)	-
Public improvements	10,382,962	1,245,706	853,133	1,711,776	(6,572,347)	-
Community development	10,371,116	1,603,315	8,173,491	-	(594,310)	-
Parking garage	900,712	1,845,342	-	-	944,630	-
Interest on long-term debt	1,654,623	-	-	-	(1,654,623)	-
Total governmental activities	71,347,001	6,891,828	11,087,041	1,711,776	(51,656,356)	-
Component Unit						
Devou Properties, Inc.	2,268,681	2,644,022	-	-	-	375,341
Total	\$ 73,615,682	\$ 9,535,850	\$ 11,087,041	\$ 1,711,776	(51,656,356)	375,341
General Revenues:						
Taxes:						
Real property taxes					7,101,877	-
Personal property taxes					660,376	-
Public service taxes					2,229,746	-
Taxes, levied for bank deposits					84,652	-
Insurance premium taxes					7,592,489	-
Payroll taxes					26,291,746	-
Net profit taxes					2,980,516	-
Investment earnings					208,636	-
Miscellaneous					664,949	-
Total general revenues					47,814,987	-
Change in net position					(3,841,369)	375,341
Net position beginning of year, as restated					(36,481,509)	2,123,286
Net position end of year					\$ (40,322,878)	\$ 2,498,627

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

CITY OF COVINGTON, KENTUCKY

Balance Sheet
Governmental Funds
June 30, 2018

	General	Pension Obligation 2004 Fund	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 10,040,371	\$ -	\$ -	\$ 3,472,266	\$ 8,497,827	\$ 22,010,464
Cash held in escrow	421,769	-	-	-	-	421,769
Receivables (net of allowance for doubtful accounts):						
Taxes	7,226,416	-	-	-	-	7,226,416
Intergovernmental	123,438	-	-	-	1,738,946	1,862,384
Notes	3,660,000	-	2,463,576	-	546,608	6,670,184
Accounts	77,396	-	-	-	928,353	1,005,749
Due from other funds	2,736,794	-	-	7,363	869,880	3,614,037
Due from fiduciary funds	1,122,264	-	-	-	-	1,122,264
Prepaid items	128,902	-	-	-	8,665	137,567
Total assets	<u>\$ 25,537,350</u>	<u>\$ -</u>	<u>\$ 2,463,576</u>	<u>\$ 3,479,629</u>	<u>\$ 12,590,279</u>	<u>\$ 44,070,834</u>
Liabilities:						
Accounts payable	\$ 474,119	\$ -	\$ -	\$ 512,262	\$ 1,036,912	\$ 2,023,293
Accrued liabilities	2,274,427	-	-	-	98,845	2,373,272
Due to other funds	2,324,707	-	-	43,269	2,514,438	4,882,414
Unearned revenue	311	-	-	-	1,720,193	1,720,504
Total liabilities	<u>5,073,564</u>	<u>-</u>	<u>-</u>	<u>555,531</u>	<u>5,370,388</u>	<u>10,999,483</u>
Deferred Inflow of Resources:						
Unavailable revenue	<u>5,868,287</u>	<u>-</u>	<u>2,463,576</u>	<u>-</u>	<u>942,634</u>	<u>9,274,497</u>
Fund balances:						
Nonspendable	128,902	-	-	-	-	128,902
Restricted	421,769	-	-	2,924,098	1,546,474	4,892,341
Committed	5,530,433	-	-	-	5,168,294	10,698,727
Unassigned	8,514,395	-	-	-	(437,511)	8,076,884
Total fund balances	<u>14,595,499</u>	<u>-</u>	<u>-</u>	<u>2,924,098</u>	<u>6,277,257</u>	<u>23,796,854</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 25,537,350</u>	<u>\$ -</u>	<u>\$ 2,463,576</u>	<u>\$ 3,479,629</u>	<u>\$ 12,590,279</u>	<u>\$ 44,070,834</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018

Total fund balances - governmental funds		\$ 23,796,854
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		69,071,859
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		6,810,922
Internal service funds are used by management to charge the cost of certain activities, such as liability and medical insurance, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		(391,702)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds payable	\$ 37,404,696	
Capital lease payable	16,785,968	
Accrued interest payable	242,829	
Unamortized premiums	197,168	
Compensated absences	<u>1,569,361</u>	
Total		(56,200,022)
The net pension and OPEB liabilities are not due and payable in the current period, therefore, the liabilities and related deferred outflows and inflows of resources are not reported in the governmental funds:		
Deferred outflows - pensions and OPEB	\$ (37,376,491)	
Deferred inflows - pensions and OPEB	3,256,539	
Net pension and OPEB liability	<u>117,530,741</u>	
Total		<u>(83,410,789)</u>
Net position of governmental activities		\$ (40,322,878)

CITY OF COVINGTON, KENTUCKY

Statement of Revenues, Expenditures and Changes
in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2018

	General	Pension Obligation 2004 Fund	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 17,119,584	\$ -	\$ -	\$ -	\$ -	\$ 17,119,584
Licenses and permits	29,590,400	-	-	-	-	29,590,400
Intergovernmental	1,611,053	-	-	-	11,198,043	12,809,096
Fines and forfeitures	221,225	-	-	-	-	221,225
Charges for services	2,369,629	-	-	-	3,043,520	5,413,149
Investment earnings	207,207	-	-	252	1,177	208,636
Miscellaneous	825,863	-	-	-	1,090,221	1,916,084
Total revenues	<u>51,944,961</u>	<u>-</u>	<u>-</u>	<u>252</u>	<u>15,332,961</u>	<u>67,278,174</u>
Expenditures:						
Current:						
General government	5,425,874	-	-	-	589,366	6,015,240
Police	14,631,134	-	-	-	665,034	15,296,168
Fire	13,725,303	-	-	-	630,067	14,355,370
Public improvements	6,064,789	-	-	2,219	2,049,588	8,116,596
Community development	1,646,371	-	-	-	7,977,086	9,623,457
Parking garage	900,712	-	-	-	-	900,712
Debt service:						
Principal	3,500,629	-	-	-	432,348	3,932,977
Interest	1,601,784	-	-	-	80,941	1,682,725
Capital outlay	110,816	-	-	1,777,812	2,714,770	4,603,398
Total expenditures	<u>47,607,412</u>	<u>-</u>	<u>-</u>	<u>1,780,031</u>	<u>15,139,200</u>	<u>64,526,643</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,337,549</u>	<u>-</u>	<u>-</u>	<u>(1,779,779)</u>	<u>193,761</u>	<u>2,751,531</u>
Other financing sources (uses):						
Transfers in	1,445,074	-	-	327,740	5,134,299	6,907,113
Transfers out	(4,208,818)	(401,000)	-	-	(2,647,295)	(7,257,113)
Sale of assets	67,664	-	-	-	-	67,664
Total other financing sources (uses)	<u>(2,696,080)</u>	<u>(401,000)</u>	<u>-</u>	<u>327,740</u>	<u>2,487,004</u>	<u>(282,336)</u>
Net change in fund balances	1,641,469	(401,000)	-	(1,452,039)	2,680,765	2,469,195
Fund balance, beginning of year	12,954,030	401,000	-	4,376,137	3,596,492	21,327,659
Fund balance, end of year	<u>\$ 14,595,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,924,098</u>	<u>\$ 6,277,257</u>	<u>\$ 23,796,854</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Fiscal Year Ended June 30, 2018

Net change in fund balances - total governmental funds **\$ 2,469,195**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense:

Capital additions	4,603,398
Depreciation expense	(4,217,535)

In the statement of activities, gain on disposal of capital assets is reported, whereas only proceeds from sales are reported in the governmental funds.	(15,972)
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Revenue in the statement of activities that do not provide current financial resources are reported as deferred inflows in the governmental funds.	557,786
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated absences	(112,393)
Interest on long-term debt	17,687
Amortization of Premiums	10,416

Repayment of bonds, notes and lease principal is an expenditure in the governmental funds, whereas the payments reduce long-term liabilities in the statement of net position.	3,932,977
--	-----------

Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	(48,978)
--	----------

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.	6,229,684
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Revenue in the statement of revenues, expenditures and changes in fund balances that provide current financial resources.	(205,915)
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Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.	<u>(17,061,719)</u>
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Change in net position of governmental activities **\$ (3,841,369)**

CITY OF COVINGTON, KENTUCKY

Statement of Net Position

Proprietary Funds

June 30, 2018

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 1,179,747
Prepaid expenses	44,495
Due from other funds	<u>1,268,377</u>
Total assets	<u>2,492,619</u>
Liabilities	
Current Liabilities	
Accounts payable	74,008
Claims payable	<u>1,510,313</u>
	1,584,321
Noncurrent Liabilities	
Claims payable	<u>1,300,000</u>
Total Liabilities	<u>2,884,321</u>
Net Position	
Unrestricted	<u>(391,702)</u>
Total net position	<u>\$ (391,702)</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY

Statement of Revenues, Expenses

and Changes in Net Position

Proprietary Funds

Fiscal Year Ended June 30, 2018

	Governmental Activities Internal Service Funds
<i>Operating revenues:</i>	
Insurance premiums	\$ 5,163,574
Other	<u>156,843</u>
Total operating revenues	<u>5,320,417</u>
<i>Operating expenses:</i>	
Contractual services	1,004,521
Claims and judgments	<u>4,724,587</u>
Total operating expenses	<u>5,729,108</u>
Operating loss	(408,691)
<i>Non-operating revenues (expenses):</i>	
Investment income	<u>9,713</u>
Total non-operating revenues (expenses)	<u>9,713</u>
Loss before transfers	(398,978)
Transfers in	<u>350,000</u>
Change in net position	(48,978)
Net position, beginning of year	<u>(342,724)</u>
Net position, end of year	<u>\$ (391,702)</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY

Statement of Cash Flows

Proprietary Funds

Fiscal Year Ended June 30, 2018

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<i>Cash flows from operating activities:</i>	
Cash received from other funds	\$ 5,455,584
Cash received from other income	156,843
Cash payments for claims	<u>(7,053,174)</u>
Net cash (used by) operating activities	<u>(1,440,747)</u>
<i>Cash flows from noncapital financing activities:</i>	
Transfers	<u>350,000</u>
Net cash provided by noncapital financing activities	<u>350,000</u>
<i>Cash flows from investing activities:</i>	
Interest income	<u>9,713</u>
Net cash provided by investing activities	<u>9,713</u>
Net change	(1,081,034)
Cash and cash equivalents, beginning of year	<u>2,260,781</u>
Cash and cash equivalents, end of year	<u>\$ 1,179,747</u>
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (408,691)
Adjustments to reconcile operating loss to net cash (used by) operating activities:	
Changes in assets and liabilities:	
Prepaid expenses	(44,495)
Due from/to other funds	292,010
Accounts payable	(21,628)
Claims payable	<u>(1,257,943)</u>
Net cash (used by) operating activities	<u>\$ (1,440,747)</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Combined Pension Trusts	Agency
Assets		
Cash and cash equivalents	\$ 322,787	\$ 6,647
Bond mutual funds	2,751,200	-
Equity mutual funds	1,060,949	-
Other assets	<u>3,794,020</u>	<u>-</u>
Total assets	<u>7,928,956</u>	<u>6,647</u>
Liabilities		
Due to the primary government	1,122,264	-
Due to others	<u>-</u>	<u>6,647</u>
	<u>1,122,264</u>	<u>\$ 6,647</u>
Net Position		
Net position restricted for pensions	<u>\$ 6,806,692</u>	

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Fiscal Year Ended June 30, 2018

	<u>Combined Pension Trusts</u>
<i>Additions</i>	
Contributions:	
Employer contributions	\$ 1,121,500
Impounding lot	1,065
Miscellaneous	<u>256</u>
Total revenue	<u>1,122,821</u>
Investment return:	
Interest and dividends	171,048
Net appreciation in fair value of investments	<u>549,953</u>
Total net investment return	<u>721,001</u>
Total additions	<u>1,843,822</u>
<i>Deductions</i>	
Benefit payments	1,708,940
Administration	<u>11,871</u>
Total deductions	<u>1,720,811</u>
Change in net position	123,011
Net position, beginning of year	<u>6,683,681</u>
Net position, end of year	<u>\$6,806,692</u>

See accompanying notes to the basic financial statements.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The basic financial statements of the City of Covington, Kentucky (the City), have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Covington is a municipality that operates under a City Manager form of government. Executive and legislative authority is vested in the elected Mayor and four City Commissioners. As required by U.S. generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Financial accountability is defined as the appointment of a voting majority of the component units' board, and either (1) the City's ability to impose its will over the component unit or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit of the City has a June 30 year end. The component unit discussed below is included in the City's reporting entity as part of the primary government because of the significance of its operational and/or financial relationship with the City.

Blended Component Unit Included Within the Reporting Entity. The City of Covington Municipal Properties Corporation was formed to act as an agent and to be instrumental in the financing of public improvements and projects of a capital nature for the City and for the particular purpose of acquiring real estate located within the City and constructing, acquiring and equipping thereon capital improvements, facilities, buildings, structures and related appurtenances. The Corporation finances these projects by the issuance of debt. These debt issues are secured by (1) first mortgage liens on the projects, (2) lease and option agreements between the Corporation and the City, the construction agreements and pledged receipts. The lease and option agreements require the City to pay rental, on a yearly basis with the option to renew each year, equal to the amount of bonds and interest coupons coming due in that year. If the City renews the leases from year-to-year, and pays the rentals for each year as stipulated, and when the Corporation has fully paid and retired all of the bonds, the Corporation agrees it will convey the properties to the City free and clear.

Discretely Presented Component Unit Included Within the Reporting Entity. Devou Properties, Inc. (a non-profit organization and its wholly owned subsidiary) is included in the City's financial statements as a discretely presented component unit. Although a legally separate entity, Devou Properties, Inc. is included in these financial statements because of its financial accountability to the City. Devou Properties, Inc. was formed to maintain and operate the Drees Pavilion at Devou Memorial Overlook for the City of Covington, for the benefit of Devou Park. Devou Properties, Inc. is responsible for renting out the facilities for events, including weddings, receptions and corporate events. Directors of Devou Properties, Inc. are appointed by the City's Board of Commissioners, upon the recommendation of the Mayor. Any excess funds from operations of the facility are to be set aside to be used on Devou Park projects. As a discretely presented component unit, the financial statements of Devou Properties, Inc. are only included on the City's government-wide financial statements in a column that makes it clearly separate from the primary government. Devou Properties, Inc. operates on a calendar year-end basis; therefore, the financial statements for the year ended December 31, 2017, are included in the City's current financial statements. Audited financial statements of Devou Properties Inc. are available and may be obtained by contacting the City Manager.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Summary of Significant Accounting Policies - continued

Basis of Presentation Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements; however, interfund services provided and used are not eliminated. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Significant revenues susceptible to accrual are payroll license fees, insurance fees and grant revenues. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to long-term compensated absences and claims and judgments, are recorded only when payment is due.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Summary of Significant Accounting Policies - continued

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government that are not accounted for in the other funds.
- The Neighborhood Stabilization Program Fund accounts for U.S. Department of Housing and Urban Development funds, passed through from the State, to develop low income rental units and owner occupied homes purchased out of foreclosure.
- The Capital Improvement Fund accounts for funds provided to the City by the Federal and State governments and public financing for the acquisition and/or construction of capital improvements and equipment.
- The Pension Obligation 2004 Fund accounts for the retirement of the Series 2004 Pension Obligation bonds to fund the Employees' Retirement Fund and the Police and Firemen's Retirement Fund. The bonds were refunded on October 21, 2014.

The City reports the following proprietary funds:

- The City has two internal service funds. One fund is for self-insurance for the City's health and dental insurance program for City employees. The second fund is for the self-insurance of the City's liability claims. Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Additionally, the City reports three fiduciary funds. The two pension trust funds account for the activities of the Employees' Retirement Fund and the Police and Firemen's Retirement Fund. These funds are for the accumulation of resources for pension benefit payments to qualified retired employees (see Note 9). The agency fund is for Covington's Community Development Initiative to develop vacant and abandoned properties.

Assets, Deferred Inflows, Deferred Outflows, Liabilities and Net Position/Fund Balance

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

The City is authorized by state statute to invest in:

- Obligations of the United States and of its Agencies and Instrumentalities
- Certificates of Deposits
- Bankers Acceptances
- Commercial Paper
- Bonds of Other State or Local Governments
- Mutual Funds

Cash with fiscal agent represents the balance available to be drawn from the issuance of bond proceeds for public improvements. Cash held in escrow represents a debt service reserve account to satisfy debt service requirements in the final year of maturity.

Property Tax Receivable

Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately September 15 and are due and payable on October 15. On October 16, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on October 16.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Summary of Significant Accounting Policies - continued

Notes Receivable

Notes receivable are comprised of housing development and small business loans financed by a combination of resources appropriated by the City and allocations from the U.S. Department of Housing and Urban Development (HUD). As of June 30, 2018, the City had housing development and small business loans outstanding of \$18,152,076 and \$1,822,811, respectively. The City has recorded an allowance of \$15,688,500 on housing development and \$1,276,203 on small business loans. Although some loans are repaid, repayment may be limited to net proceeds after payment of the first mortgage and seller closing costs and; therefore most repayments are minimal. Additionally, many loans have favorable repayments terms to encourage home ownership that include deferral and/or forgiveness if homeowners remain in the home for a specified period of time. The City of Covington has a note receivable of \$3,660,000 from 638 Madison LLC, in regards to the Hotel Covington.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items in both the government-wide and fund financial statements. The consumption method is used in the fund statements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in a propriety fund. These assets are reported in the governmental activities column of the government-wide statement of net position.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure, such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets, works of art and similar items and capital assets received in service concession arrangements are reported at acquisition value. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. The City maintains a capitalization threshold of four thousand dollars.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the statement of net position. The range of lives used for depreciation purposes for each capital asset class is as follows:

Description	Governmental Activities
	<u>Estimated Lives</u>
Buildings	30 years
Buildings and improvements	10 – 20 years
Public domain infrastructure	25 – 35 years
Vehicles	5 – 10 years
Office equipment	3 – 10 years

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Summary of Significant Accounting Policies - continued

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows are reported on the government-wide statement of net position for pension and other post-employment benefit (OPEB) related liabilities.

Compensated Absences

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation. Vested or accumulated vacation leave that has matured and is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Accumulated sick leave lapses when employees leave employment of the City and, upon separation from service; no monetary obligation exists.

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as an other financing source and payment of principal and interest are reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Unearned Revenue

In the statements of financial position, unearned revenue represents the amount for which revenue recognition criteria have not been met. In subsequent periods, when the incurrence of qualifying expenditures has been made, the liability for the unearned revenue is removed and the revenue is recognized.

Deferred Inflows of Resources

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include unavailable revenue and items related to the pension liabilities, unavailable revenue represent receivables that will not be collected within the available period (typically sixty days after fiscal year-end) and is only reported in the governmental fund financial statements. Deferred inflows of resources related to pension and OPEB liabilities are reported in the government-wide statement of net position.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Summary of Significant Accounting Policies - continued

Net Position/Fund Balance

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets is capital assets less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed - Amounts that can be used only for specific purposes determined by a formal action by City Commission ordinance.
- Assigned - Amounts that are designated by the Board of Commissioners for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Commission.
- Unassigned - All amounts not included in other spendable classifications.

When an expense/expenditure is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense/expenditure toward restricted resources and then toward unrestricted resources. In governmental funds, when both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources - committed, assigned and unassigned - in order as needed.

Revenues and Expenses

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. Operating revenues and expenses for the proprietary funds are those that result from internal insurance premiums.

Interfund Transactions

Interfund services provided/used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from a fund that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgetary Information

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds and for proprietary funds.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Summary of Significant Accounting Policies – continued

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. See Note 10 for additional information related to the OPEB liability.

Note 2 - Stewardship, Compliance and Accountability

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with City ordinance, prior to June 1, the City Manager submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- A public meeting is conducted to obtain taxpayer comment.
- Prior to June 30, the budget is legally enacted through passage of an ordinance.
- The City Manager is required by Kentucky Revised Statutes to present a quarterly report to the Mayor and Board of Commissioners explaining any variance from the approved budget.
- Appropriations continue in effect until a new budget is adopted.

The Board of Commissioners may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the fund level. Any amendments to the budget that would change fund level totals must be approved by the Board of Commissioners. Encumbrance accounting is not employed by the City. During the year, the Board of Commissioners adopted two supplementary appropriation ordinances. Appropriations lapse at year end unless a new budget has not been adopted.

Excess of Expenditures over Appropriations

The following funds had expenditures, including other financing uses, in excess of legally adopted appropriations for the year ended June 30, 2018:

	<u>Budget</u>	<u>Actual</u>
Housing Voucher Program Fund	\$5,905,150	\$6,219,561
Police & Fire Supplemental Pay Fund	936,000	1,170,114

See Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Housing Voucher Program Fund and Police & Fire Supplemental Pay Fund.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 3 - Deposits

Cash and Cash Equivalents

Custodial Credit Risk. For deposits, this is the risk that in the event of a bank failure, the City's deposits will not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

As of June 30, 2018, \$442,287 of the City's deposits are insured by the FDIC, and \$23,880,248 of the City's deposits are collateralized with securities held by the pledging institution's trust department but not in the City's name.

Additionally, the City had \$421,769 in escrow balances for debt reserves and park maintenance.

As of December 31, 2017, Devou Properties, Inc. (a component unit of the City) had \$2,033,250 in cash in excess of insured limits.

Investments

Investments are made by the City as an agent for the City Employees' Retirement Fund and the Police and Firemen's Retirement Fund. The investments held by each fund at June 30, 2018 are summarized as follows:

City Employees' Retirement Fund

Investment Type	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 2 Years	3 to 5 Years	Beyond 5 Years
Cash and cash equivalents	\$ 167,135	\$ 167,135	\$ -	\$ -	\$ -
Bond mutual funds	865,152	865,152	-	-	-
Equity mutual funds	333,138	333,138	-	-	-
Other assets	1,196,327	1,099,392	-	-	96,935
	<u>\$ 2,561,752</u>	<u>\$2,464,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,935</u>

Police and Firemen's Retirement Fund

Investment Type	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 2 Years	3 to 5 Years	Beyond 5 Years
Cash and cash equivalents	\$ 155,652	\$ 155,652	\$ -	\$ -	\$ -
Bond mutual funds	1,886,048	1,886,048	-	-	-
Equity mutual funds	727,811	727,811	-	-	-
Other assets	2,597,693	2,387,866	-	-	209,827
	<u>\$ 5,367,204</u>	<u>\$ 5,157,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,827</u>

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 3 - Deposits - continued

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The pension systems' investment policies do not contain a formal policy relating to interest rate risk. There are no limits on maturities.

Credit risk: It is each pension systems' policy to limit its investments to those which have a volatility (beta) no greater than 1.20 versus the relevant Policy Benchmark. There is no policy regarding credit risk/ratings of bond investments.

Custodial credit risk: Custodial credit risk is the risk that in the event of a failure of a counter party, the pension systems will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. Investments are made by the City as an agent for the City Employees' Retirement Fund and the Police and Firemen's Retirement Fund. The City maintains investment accounts with brokerage institutions which hold the investments registered in the City's name. As of June 30, 2018, all of the City's investments were covered by SIPC coverage or excess SIPC coverage provided by the institution, and are therefore not subject to custodial credit risk.

Concentration of credit risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The pension systems' investment policy does not allow for an investment in global equity that is in excess of 75% of the portfolio's market value, nor does it allow for an investment in global fixed income in excess of 40% of the portfolio's market value, nor an investment in real assets in excess of 30% of the portfolio's market value, nor an investment in diversifying strategies in excess of 20% of the portfolio's market value. The following table includes the percentage of each investment type held by the pension systems at June 30, 2018:

Investment Type	City Employees'		Police and Firemen's	
	Fair Value	Percent Of Total	Fair Value	Percent Of Total
Cash and cash equivalents	\$ 167,135	6%	\$ 155,652	3%
Bond mutual funds	865,152	34%	1,886,048	35%
Equity mutual funds	333,138	13%	727,811	14%
Other assets	1,196,327	47%	2,597,693	48%
	<u>\$ 2,561,752</u>	<u>100%</u>	<u>\$ 5,367,204</u>	<u>100%</u>

Fair Value Measured: Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at June 30, 2018:

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 3 - Deposits - continued

Police and Firemen's		Fair Value Measurements Using			
Investments	Total	Level 1	Level 2	Level 3	
Cash and Cash Equivalents					
US Bank Account	\$ 119,916	\$ 119,916	\$ -	\$ -	
Charles Schwab	35,736	35,736	-	-	
Total Cash and Cash Equivalents	155,652	155,652	-	-	
Bond Mutual Funds					
Dodge & Cox Income Fund	837,985	837,985	-	-	
Doubleline Total Return	1,048,063	1,048,063	-	-	
Total Bond Mutual Funds	1,886,048	1,886,048	-	-	
Equity Mutual Funds					
Tortoise MLP & Pipeline	106,350	106,350	-	-	
Lazard Emrg Mkts Eqty	203,620	203,620	-	-	
Johcm Intl Slct Fd	417,841	417,841	-	-	
Total Equity Mutual Funds	727,811	727,811	-	-	
Other Assets					
Ishares MSCI EAFE Small	69,014	69,014	-	-	
Ishares Russell 3000	2,054,754	2,054,754	-	-	
Ishares 20 Pls Year	213,497	213,497	-	-	
WisdownTree Dynamic INTL	260,428	260,428	-	-	
Total Other Assets	2,597,693	2,597,693	-	-	
Total Investments	\$ 5,367,204	\$ 5,367,204	\$ -	\$ -	

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 4 - Capital Assets and Depreciation

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 14,800,827	\$ 87,493	\$ 1,997	\$ 14,886,323
Land improvements	2,072,096	45,726	-	2,117,822
Construction in progress	6,022,246	1,269,260	5,716,777	1,574,729
Total capital assets not being depreciated	<u>22,895,169</u>	<u>1,402,479</u>	<u>5,718,774</u>	<u>18,578,874</u>
Depreciable capital assets				
Buildings	24,212,931	5,764,236	2,800	29,974,367
Building improvements	15,121,699	155,249	48,229	15,228,719
Infrastructure	129,909,487	1,949,973	-	131,859,460
Machinery and equipment	4,989,028	534,101	1,341,152	4,181,977
Vehicles	15,331,792	514,137	390,842	15,455,087
Total depreciable capital assets	<u>189,564,937</u>	<u>8,917,696</u>	<u>1,783,023</u>	<u>196,699,610</u>
Less accumulated depreciation				
Buildings	10,756,666	628,286	1,456	11,383,496
Building improvements	11,170,040	685,324	35,598	11,819,766
Infrastructure	107,143,879	1,155,038	-	108,298,917
Machinery and equipment	4,276,706	459,789	1,341,152	3,395,343
Vehicles	10,410,847	1,289,098	390,842	11,309,103
Total accumulated depreciation	<u>143,758,138</u>	<u>4,217,535</u>	<u>1,769,048</u>	<u>146,206,625</u>
Total depreciable capital assets, net	<u>45,806,799</u>	<u>4,700,161</u>	<u>13,975</u>	<u>50,492,985</u>
Governmental Activities capital assets, net	<u>\$ 68,701,968</u>	<u>\$ 6,102,640</u>	<u>\$ 5,732,749</u>	<u>\$ 69,071,859</u>
Component Unit				
Devou Properties, Inc.				
Depreciable capital assets				
Property and equipment	\$ 232,978	\$ 85,184	\$ -	\$ 318,162
Less accumulated depreciation	166,394	33,347	-	199,741
Component Unit property and equipment, net	<u>\$ 66,584</u>	<u>\$ 51,837</u>	<u>\$ -</u>	<u>\$ 118,421</u>

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 4 - Capital Assets and Depreciation - continued

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 786,434
Police	650,909
Fire	1,900,800
Public improvements	480,586
Community development	398,806
	<hr/>
Total Governmental Activities depreciation expense	<u><u>\$4,217,535</u></u>

Note 5 - Interfund Activity

Interfund transactions at June 30, 2018 consisted of the following due to/from other funds and transfers in/out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$ 2,736,794	\$ 2,324,707	\$ 1,445,074	\$ 4,208,818
Pension Obligation 2004 Fund	-	-	-	401,000
Capital Improvement Fund	7,363	43,269	327,740	-
Nonmajor Governmental Funds	869,880	2,514,438	5,134,299	2,647,295
Internal Service Funds	1,268,377	-	350,000	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<u><u>\$ 4,882,414</u></u>	<u><u>\$ 4,882,414</u></u>	<u><u>\$ 7,257,113</u></u>	<u><u>\$ 7,257,113</u></u>

Due To/From Other Funds

Interfund receivables/payables represent short-term loans from one fund to another.

Due From Fiduciary Activities/Due To Primary Government

As of June 30, 2018, the General Fund provided short-term loans of \$591,842 to the Employees' Retirement Fund and \$530,422 to the Police & Firemen's Retirement Fund.

Interfund Transfers

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due. Much of the City's revenue is received in the General Fund and transferred to various other funds in order to fund immediate expenditures.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 6 - Operating Leases

Operating Lease Payable

The City leases various equipment and supplies under an operating lease that was entered into during January 2015. The lease calls for monthly payments of \$4,208 through December 2019. The City incurred approximately \$50,497 of expense under the lease agreement in the year ended June 30, 2018. Minimum lease payments due under the operating lease are as follows as of June 30, 2018:

Fiscal Year Ending June 30,		
2019	\$	50,497
2020		25,248
	\$	<u>75,745</u>

Operating Lease Receivable

In December 2017, the City amended its operating agreement with Devou Properties to include a long-term operating lease to repay the debt service, incurred by the City, for public project bonds to provide \$5,813,221 for the construction and updating of the Devou Golf and Event Center. The operating lease is to be repaid over 24 years with an interest rate that varies between 3.00% and 4.00%. The operating lease calls for annual payments of \$356,391. The initial payment of \$259,269, which included a credit of \$97,122, is reported as revenue in the General Fund for the year ended June 30, 2018. The credit was associated with Devou Clubhouse construction expenses paid directly by Devou Properties. The City of Covington will retain ownership of the facilities, equipment, and improvements. Future minimum lease payments to be received under the operating agreement are as follows as of June 30, 2018:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 168,190	\$ 188,201	\$ 356,391
2020	173,236	183,155	356,391
2021	178,433	177,958	356,391
2022	183,786	172,605	356,391
2023	189,300	167,091	356,391
2024-2028	1,037,482	744,473	1,781,955
2029-2033	1,234,111	547,845	1,781,956
2034-2038	1,482,311	299,644	1,781,955
2039-2041	1,003,080	66,094	1,069,174
	<u>\$ 5,649,929</u>	<u>\$ 2,547,066</u>	<u>\$ 8,196,995</u>

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 7 - General Long-Term Debt

Capital Lease Obligations

Capital lease obligations in the government-wide financial statements are reported as liabilities at lease inception. The related assets along with depreciation are reported at that time. Lease payments are reported as a reduction of the liability. For capital lease obligations in governmental funds, "Other Financing Sources –Inception of capital lease" was recorded at lease inception. Lease payments are recorded as expenditures.

The following capital lease obligations are payable from governmental fund revenues. The City has entered into various lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is an analysis of the capital assets acquired through capital leases as of June 30, 2018:

	Capital Assets
	<hr/>
Buildings	\$ 9,254,680
Building improvements	4,814,321
Equipment	1,105,104
Land	7,028,833
Infrastructure	8,825,141
Vehicles	4,972,106
	<hr/>
Total cost	36,000,185
Accumulated depreciation	(7,838,746)
	<hr/>
Net Book Value	\$ 28,161,439
	<hr/>

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2018:

Fiscal Year Ending June 30,	
<hr/>	
2019	\$ 1,420,713
2020	1,421,438
2021	1,422,754
2022	1,236,771
2023	1,152,103
2024-2028	5,686,962
2029-2033	4,646,106
2034-2038	4,283,899
2039-2042	231,322
	<hr/>
Total minimum lease payments	21,502,068
Less amounts representing interest	4,716,097
	<hr/>
Present value of minimum lease payments	\$ 16,785,971
	<hr/>

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 7 - General Long-Term Debt - continued

Notes and Bonds

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2018:

	<u>Purpose</u>	<u>Interest Rate</u>	<u>Mature Date June 30,</u>	<u>Issued</u>	<u>Outstanding</u>
Bonds					
KY Infrastructure Auth.	Rainwater project	2.00%	2030	\$ 1,197,390	\$ 384,696
2014 Pension	Pension refunding	2.00-4.00%	2030	10,960,000	9,080,000
Series 2016	Refunding	1.40-3.00%	2031	9,185,000	7,315,000
Series 2014	Capital Improvements	3.00-4.00%	2034	18,635,000	17,080,000
Series 2015	Hotel Covington	3.00-4.50%	2035	4,000,000	3,545,000

The bonds may be called prior to maturity at rates and redemption premiums specified in each issue.

Assuming no issues are called prior to maturity, the minimum obligations of the City at June 30, 2018 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,992,378	\$ 1,168,109	\$ 4,160,487
2020	2,627,928	1,096,479	3,724,407
2021	2,688,490	1,036,257	3,724,747
2022	2,764,062	974,235	3,738,297
2023	2,839,646	902,169	3,741,815
2024-2028	11,962,413	3,255,279	15,217,692
2029-2033	9,624,779	1,424,707	11,049,486
2034-2037	1,905,000	91,800	1,996,800
	<u>\$ 37,404,696</u>	<u>\$ 9,949,035</u>	<u>\$ 47,353,731</u>

Conduit Debt Obligations

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, state, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2018, there was \$91.7 million outstanding in Industrial Revenue Bonds.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 7 - General Long-Term Debt - continued

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

Debt Issue	Beginning Balance	Issued	Redeemed	Ending Balance	Amounts Due Within One Year
Bonds and notes:					
2003 Refunding	\$ 446,000	\$ -	\$ (446,000)	\$ -	\$ -
Series 2014	17,610,000	-	(530,000)	17,080,000	1,015,000
Series 2016	8,445,000	-	(1,130,000)	7,315,000	1,145,000
2014 Pension	9,720,000	-	(640,000)	9,080,000	650,000
Series 2015	3,700,000	-	(155,000)	3,545,000	155,000
KIA Rainwater Harvest	411,534	-	(26,838)	384,696	27,378
Premium on issuance	207,579	-	(10,411)	197,168	-
Total Bonds and notes	40,540,113	-	(2,938,249)	37,601,864	2,992,378
Capital lease obligations:					
Infrastructure/equipment	17,791,110	-	(1,005,139)	16,785,971	993,977
Net pension liability:					
Kentucky CERS - Nonhazardous	11,836,501	2,310,943	-	14,147,444	-
Kentucky CERS - Hazardous	48,235,603	18,085,208	-	66,320,811	-
Employees' Retirement	2,157,573	667,417	(954,544)	1,870,446	-
Police & Firemen's Retirement	6,644,609	1,852,795	(2,669,816)	5,827,588	-
Total net pension liability	68,874,286	22,916,363	(3,624,360)	88,166,289	-
Net OPEB liability:					
Kentucky CERS - Nonhazardous	3,811,252	1,047,745	-	4,858,997	-
Kentucky CERS - Hazardous	14,642,905	9,862,550	-	24,505,455	-
Total net OPEB liability	18,454,157	10,910,295	-	29,364,452	-
Claims payable	2,568,280	105,107	(1,373,387)	1,300,000	-
Compensated absences	1,456,969	1,569,361	(1,456,969)	1,569,361	1,569,361
Total Long-Term Liabilities	<u>\$ 149,684,915</u>	<u>\$ 35,501,126</u>	<u>\$ (10,398,104)</u>	<u>\$ 174,787,937</u>	<u>\$ 5,555,716</u>

Compensated absences will be liquidated by the City's general fund. Compensated absences are required to be used within one year; therefore the balance is classified as due within one year.

Note 8 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has established a Liability Self Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Liability Self Insurance Fund provides coverage for all losses. The City purchases commercial insurance for fire and extended coverage losses.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 8 - Risk Management - continued

All funds of the City participate in the program and make payments to the Liability Self Insurance Fund; however, the payments are not based on actuarial estimates of the amounts needed to pay prior and current-year claims but are intended to establish a reserve for catastrophic losses. That reserve was \$1,300,000 at June 30, 2018. Changes in the Liability Self Insurance Fund's claims liability amount during the fiscal years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Claims liability at July 1	\$ 2,568,280	\$ 2,568,280
Change in claims and estimates	105,107	62,072
Claims payments	<u>(1,373,387)</u>	<u>(62,072)</u>
Claims liability at June 30	<u><u>\$ 1,300,000</u></u>	<u><u>\$ 2,568,280</u></u>

The City has also established a Medical Self Insurance Fund. Employees may elect to participate in this program or certain other medical insurance programs offered by the City. Under this program the first \$125,000 of a participants' medical claims are payable by the Medical Self Insurance Fund. The City purchases insurance for claims in excess of coverage provided by the fund. All funds of the City participate in the program and make payments to the Medical Self Insurance Fund based on historical estimates of the amounts needed to pay prior and current year claims. The claims liability reported at June 30, 2018 is \$1,510,313. Of that amount, \$1,510,313 represents current liabilities. Changes in the Medical Self Insurance Fund's claims liability amount during the fiscal years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Claims liability at July 1	\$ 1,499,976	\$ 1,627,096
Change in claims and estimates	4,620,610	4,115,497
Claims payments	<u>(4,610,273)</u>	<u>(4,242,617)</u>
Claims liability at June 30	<u><u>\$ 1,510,313</u></u>	<u><u>\$ 1,499,976</u></u>

There have been no significant reductions in insurance coverage from the prior year.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans

The City of Covington maintains two single employer, defined benefit pension plans: Employees' Retirement Plan and Police and Firemen's Retirement Plan. A separate, audited post-employment benefit plan report prepared in accordance with U.S. generally accepted accounting principles is not available for these plans. The City also participates in the County Employees Retirement System (CERS).

Summary of Significant Accounting Policies

Employees' Retirement Plan and Police and Firemen's Retirement Plan

Basis of Accounting. The plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

A. Employees' Retirement Plan

Plan Description. The Employees' Retirement Plan is a single-employer defined benefit pension plan that covers substantially all non-public safety employees hired prior to April 1, 1977. The plan is administered by the Board of Trustees, which consists of five members: the Mayor, the City Manager, the Finance Director, the Human Resources Director, and a former employee who is a member of the Plan appointed by the Mayor.

Benefits Provided. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Plan members who retire with 10 years of service at age 50 are eligible to receive a monthly benefit of 2.5% of their average salary for each of the first 20 years of service, 2.0% for the next 5 years of service, and 1.0% for each additional year, with a maximum benefit of 65% of average salary. Plan members who were terminated before age 50, but had 10 years of service are eligible for an accrued benefit as of termination of employment payable upon attainment of age 50. Plan members terminated with less than 10 years of service are entitled to a refund of their contributions without interest.

Plan members eligible for an occupational disability retirement shall receive an annuity equal to 60% of an average of their three highest salary years. Plan members eligible for a non-occupational disability retirement are entitled to an annuity equal to 2.5% of their average salary, subject to a minimum payment of 25% of such average salary, and a maximum payment of 65% of their average salary, if they have at least 10 years of service.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

A. Employees' Retirement Plan - continued

Non-occupational death benefits are equal to the total contributions made to the plan, if the employee had less than 10 years of service, or an annuity equal to 1.5% of their average salary for each year of service, adjusted by 0.50 for the first minor child and by 0.25 for each additional child, with a maximum family benefit of 50% of the average salary if the employee had at least 10 years of service. Occupational death benefits are equity to 50% of average salary, increasing by 10% for each minor child, with a maximum equal to 70% of average salary.

Cost-of-living adjustments (COLA) are provided at the discretion of the Board of Trustees. Benefits are provided and may be amended by City ordinance. There was not a COLA for 2018.

Contributions. As of June 30, 2018, there are 33 retirees and beneficiaries currently receiving benefits. The City is required to contribute at an actuarially determined rate. Contribution requirements of the City are established and may be amended by City ordinance. Administrative costs are financed through investment earnings. The plan is closed to new entrants and doesn't have any active plan members.

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	50%	3.5%
Equity funds	50%	7.0%
Real assets	0%	0.0%
Low volatility	0%	0.0%
Total	100%	

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

A. Employees' Retirement Plan - continued

Concentrations. The Employees' Retirement Plan investments concentration as of June 30, 2018:

<u>Investment</u>	<u>Concentration</u>
Cash and money markets	6%
Bond mutual funds	34%
Equity mutual funds	13%
Other assets	47%
	<u>100%</u>

Rate of Return. For the year ended June 30, 2018, the annual money-weighted rate of return on the plan investments, net of pension plan investment expense was (9.4%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability. The Employees' Retirement net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the City at June 30, 2018, were as follows:

Total pension liability	\$ 3,836,456
Employee's Retirement Plan fiduciary net position	<u>(1,966,010)</u>
City's net pension liability	<u>\$ 1,870,446</u>
Employees' Retirement Plan net position as a percentage of total pension liability	51.25%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	5.5%, net of pension plan investment expense, including inflation
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Mortality rates were based on the RP-2014 Total Mortality Table projected generationally using scale MP-2017.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2017 – June 30, 2018.

Discount rate. The discount rate used to measure the total pension liability was 5.5 percent. The projection of cash flows used to determine the discount rate assumed the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Fiduciary Net Position is now forecast to be solvent based on the City's revised contribution policy. The discount rate is therefore equal to the expected return on assets as provided by the plan's investment managers.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

A. Employees' Retirement Plan - continued

Changes in Employees' Net Pension Liability. Changes in the Employees' Retirement net pension liability for the year ended June 30, 2018 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, June 30, 2017	\$ 4,127,151	\$ 1,969,578	\$ 2,157,573
Changes for the year:			
Interest	214,819	-	214,819
Difference between expected and actual experience	(21,834)	-	(21,834)
Changes of assumptions	(34,982)	-	(34,982)
Benefit payments	(448,698)	-	(448,698)
Contributions - employer	-	187,000	(187,000)
Net investment income	-	262,030	(262,030)
Benefit payments	-	(448,698)	448,698
Administrative expense	-	(3,900)	3,900
Net changes	<u>(290,695)</u>	<u>(3,568)</u>	<u>(287,127)</u>
Balance, June 30, 2018	<u>\$ 3,836,456</u>	<u>\$ 1,966,010</u>	<u>\$ 1,870,446</u>

	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	<u>\$ 107,747</u>
Total	<u>\$ 107,747</u>

Amounts reported as deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	
2019	\$ 37,680
2020	(31,591)
2021	(81,655)
2022	(32,181)
Thereafter	-

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

A. Employees' Retirement Plan - continued

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 5.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5%) or 1-percentage-point higher (6.5%) than the current rate:

	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease	4.50%	\$ 2,152,053
Current discount rate	5.50%	\$ 1,870,446
1% increase	6.50%	\$ 1,622,692

Pension Expense. For the year ended June 30, 2018, the City recognized pension expense of \$98,460.

B. Police and Firemen's Retirement Plan

Plan Description. The Police and Firemen's Retirement Plan is a single-employer defined benefit pension plan that covers all retired police and firemen who were receiving benefits prior to August 1, 1989. The plan is administered by the Board of Trustees, which consists of five members: the Mayor, the City Manager, the Finance Director, and two retired members of the police and fire department.

Benefits Provided. The plan provides retirement, disability and death benefits to plan members and their beneficiaries as provided under Kentucky Revised Statutes (KRS) 95.852 to 95.991. Plan members who retire with 20 years of service at age 50 are eligible to receive a monthly benefit of 2.5% of their average salary for each of the first 30 years of service, with a maximum benefit of 75% of average salary and a minimum monthly benefit of \$512.50. Plan members who were terminated before age 50, but had 20 years of service are eligible for an accrued benefit as of termination of employment payable upon attainment of age 50. Plan members terminating with less than 20 years of service are entitled to a refund of their contributions without interest.

Plan members eligible for an occupational disability retirement shall receive an annuity equal to 70% of the last salary, with a maximum benefit, including basic Workers' Compensation, equal to 100% of the last salary, and a minimum of the greater of \$512.50 monthly benefit or 2.5% of average salary of each year of service. Plan members eligible for a non-occupational disability retirement are entitled to an annuity equal to 2.5% of their average salary, subject to a minimum monthly benefit of \$512.50, and a maximum payment of 50% of their average salary, if they have at least 10 years of service.

Beneficiaries are entitled to non-occupational death benefits for employees who had 3 years of service and died from causes other than in the performance of duty. Benefits include 1.5% of average salary for each year of service plus total cost-of-living (COL) increases, retired members may have received in their annuity for beneficiaries who are at least age 45. If the beneficiary becomes totally disabled before age 45 or has a minor child or children, payments will begin immediately. If there are minor children under the age of 18, the annuity percentage credit shall be increased by a factor of 0.50 on account of the first child and by a factor of 0.25 on account of each additional child, subject to a maximum combined payment of 75% of average salary. If the pensioner is not survived by a widow and there are minor children a benefit of 50% of average salary plus total COL increases for the first minor child, plus 15% additional for the second minor child, plus 10% additional if there are 3 or more minor children, to a maximum payment of 75% of average salary (excluding COL). These benefits will be payable until age 18 or, in the case of a full-time student, until age 23. In the situation of an occupational death, monthly benefits are equal to 50% of the last rate of salary plus total COL increases, payable to the survivor until they die or remarry. If there are minor children under age 18, an additional 25% shall be paid until the last child reaches age 18, to a combined maximum benefit of

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

B. Police and Firemen's Retirement Plan - continued

75% of the final rate of salary (excluding COL). If the pensioner is not survived by a widow and there are minor children, a benefit of 50% of average salary plus total COL increases for the first minor child, plus 15% additional for the second minor child, plus 10% additional if there are 3 or more minor children, to a maximum payment of 75% of average salary (excluding COL). These benefits will be payable until age 18 or, in the case of a full-time student, until age 23. If neither a widow nor minor children survive the member, each dependent parent shall be entitled to an annuity equal to 25% of the member's last rate of salary.

Cost-of-living adjustments (COLA) are provided at the discretion of the Board of Trustees. Benefits are provided and may be amended by City ordinance. There was no COLA for 2018.

Contributions. As of June 30, 2018, there are 59 retirees and beneficiaries currently receiving benefits. The City is required to contribute at an actuarially determined rate. Contribution requirements of the City are established under KRS 95.868. Administrative costs are financed through investment earnings. The plan is closed to new entrants and doesn't have any active plan members.

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	50%	3.5%
Equity funds	50%	7.0%
Real assets	0%	0.0%
Low volatility	0%	0.0%
Total	<u>100%</u>	

Concentrations. The Police and Firemen's Retirement Plan investments concentration as of June 30, 2018:

<u>Investment</u>	<u>Concentration</u>
Cash and money markets	3%
Bond mutual funds	35%
Equity mutual funds	14%
Other assets	48%
	<u>100%</u>

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

B. Police and Firemen's Retirement Plan - continued

Rate of Return. For the year ended June 30, 2018, the annual money-weighted rate of return on the plan investments, net of pension plan investment expense was (9.9%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability. The Police and Firemen's Retirement net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the City at June 30, 2018, were as follows:

Total pension liability	\$ 10,668,270
Police and Firemen's Retirement Plan fiduciary net position	<u>(4,840,682)</u>
City's net pension liability	<u>\$ 5,827,588</u>
Police and Firemen's Retirement Plan net position as a percentage of total pension liability	45.37%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return 5.5%, net of pension plan investment expense, including inflation.

Mortality rates were based on the RP-2014 Total Mortality Table projected generationally using scale MP-2017.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2017 – June 30, 2018.

Discount rate. The discount rate used to measure the total pension liability was 5.5 percent. The projection of cash flows used to determine the discount rate assumed the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Fiduciary Net Position is now forecast to be solvent based on the City's revised contribution policy. The discount rate is therefore equal to the expected return on assets as provided by the plan's investment managers.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

B. Police and Firemen's Retirement Plan - continued

Changes in Police and Firemen's Net Pension Liability. Changes in the Police and Firemen's net pension liability for the year ended June 30, 2018 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, June 30, 2017	\$ 11,446,749	\$ 4,802,140	\$ 6,644,609
Changes for the year:			
Interest	595,322	-	595,322
Benefit changes	209,181	-	209,181
Difference between expected and actual experience	(218,038)	-	(218,038)
Changes of assumptions	(102,614)	-	(102,614)
Benefit payments	(1,262,330)	-	(1,262,330)
Contributions - employer	-	551,000	(551,000)
Net investment income	-	753,872	(753,872)
Benefit payments	-	(1,262,330)	1,262,330
Administrative expense	-	(4,000)	4,000
Net changes	(778,479)	38,542	(817,021)
Balance, June 30, 2018	<u>\$ 10,668,270</u>	<u>\$ 4,840,682</u>	<u>\$ 5,827,588</u>

	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	<u>\$ 320,885</u>
Total	<u>\$ 320,885</u>

Amounts reported as deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	
2019	\$ 67,872
2020	(90,976)
2021	(195,947)
2022	(101,834)
Thereafter	-

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

B. Police and Firemen's Retirement Plan - continued

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 5.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5%) or 1-percentage-point higher (6.5%) than the current rate:

	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease	4.50%	\$ 6,585,193
Current discount rate	5.50%	\$ 5,827,588
1% increase	6.50%	\$ 5,159,746

Pension Expense. For the year ended June 30, 2018, the City recognized pension expense of \$311,013.

C. County Employees' Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the CERS.

The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

General Information about the Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous positions of each county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5%, provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Non-hazardous Benefits – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 5-high creditable compensation years with a minimum of 48 months and a minimum of five fiscal years. Final compensation is determined by dividing the total salary earned during the 5-high years by the number of months worked, then multiplying by twelve. Non-hazardous members, age 65 or older, or with 27 or more years of service are eligible to retire and receive unreduced benefits. Any non-hazardous member, age 55, with a minimum of five years of service may retire with a reduction in benefits.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

C. County Employees' Retirement System (CERS) - continued

For non-hazardous members who began contributing to CERS on or after September 1, 2008, any member age 57 or older, may retire with no reduction in benefits if the member's age and years of service equal 87. In addition, a member, age 65, with at least 60 months of service may retire with no reduction in benefits. A member, age 60 or older, with at least 120 months of service credit may retire at any time with a reduction of benefits.

Hazardous Benefits – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 3-high creditable compensation years with a minimum of 24 months and a minimum of three fiscal years. Final compensation is determined by dividing the total salary earned during the 3-high years by the number of months worked, then multiplying by twelve. Hazardous members, age 55 or older, or with 20 or more years of service are eligible to retire and receive unreduced benefits. Any hazardous member, age 50, with a minimum of fifteen years of service may retire with a reduction in benefits.

For hazardous members who began contributing to CERS on or after September 1, 2008, any member age 60 or older with 60 months or service or a member with 25 years of service, may retire with no reduction in benefits. A member, age 50 or older, with at least 180 months of service credit may retire at any time with a reduction of benefits.

Non-hazardous Contributions - For the year ended June 30, 2018, all plan members who began participating before September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee's creditable compensation, which was the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 10. Plan members contributed 14.48% to the pension trust for non-hazardous job classifications. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans – continued

C. County Employees' Retirement System (CERS) - continued

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to participate to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2018, the City contributed \$865,621, or 100% of the required contribution for non-hazardous job classifications

Hazardous Contributions - For the year ended June 30, 2018, all plan members who began participating before September 1, 2008, were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2018, participating employers contributed 31.55% of each employee's creditable compensation, which was the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 10. Plan members contributed 22.20% to the pension trust for hazardous job classifications. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to participate to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute 8% of their annual creditable compensation and 1% to the health insurance fund, which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2018, the City contributed \$3,616,419, or 100% of the required contribution for hazardous job classifications

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans – continued

C. County Employees' Retirement System (CERS) - continued

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the City reported a liability of \$14,147,444 for its proportionate share of the net pension liability for non-hazardous and \$66,320,811 for hazardous classifications. The City's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion increased 0.002 percent from 0.240 percent at June 30, 2016 to 0.242 percent for non-hazardous and increased 0.15 percent from 2.81 percent at June 30, 2016 to 2.96 percent for hazardous classifications.

For the year ended June 30, 2018, the City recognized pension expense of \$2,237,824 for non-hazardous and \$11,021,358 for hazardous classifications. At June 30, 2018, the City reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	NON-HAZARDOUS		HAZARDOUS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
City contributions subsequent to the measurement date	\$ 857,931	\$ -	\$ 3,601,250	\$ -	\$ 4,459,181	\$ -
Proportionate share of deferred outflows at measurement date	2,852,370	-	18,198,116	-	21,050,486	-
Proportionate share of deferred inflows at measurement date	-	477,997	-	496,014	-	974,011
	<u>\$ 3,710,301</u>	<u>\$ 477,997</u>	<u>\$ 21,799,366</u>	<u>\$ 496,014</u>	<u>\$ 25,509,667</u>	<u>\$ 974,011</u>

\$4,459,181 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2019. This amount includes an adjustment of \$22,859 related to retired, re-employed individuals. Other amounts reported as deferred inflows and deferred outflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Hazardous	Non-Hazardous	Total
2019	\$ 7,165,087	\$ 991,663	\$ 8,156,750
2020	8,179,688	1,079,928	9,259,616
2021	3,080,979	484,443	3,565,422
2022	(723,652)	(181,661)	(905,313)
	<u>\$ 17,702,102</u>	<u>\$ 2,374,373</u>	<u>\$ 20,076,475</u>

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Salary Increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

C. County Employees' Retirement System (CERS) - continued

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the investment consultant for each major asset class. These ranges were combined to produce long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Nominal Return
U.S. Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	2.0%	3.65%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability for the system was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Employee Retirement Plans - continued

C. County Employees' Retirement System (CERS) - continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability calculated using the discount rate of percent, as well as what the systems' net position liability would be if it were calculated using a discount rate that is one percentage point lower (5.25%) or one percentage point higher (7.25%) than the current rate for non-hazardous and (5.25%) or one percentage point higher (7.25%) than the current rate for hazardous:

CERS	1% Decrease 5.25%	Discount Rate 6.25%	1% Increase 7.25%
Non-hazardous	\$ 17,842,985	\$ 14,147,444	\$ 11,056,152
Hazardous	\$ 83,386,404	\$ 66,320,811	\$ 52,227,124

Pension Plan Fiduciary Net Position – Detailed information about the plan's fiduciary net position is available in the separately issued CERS financial report.

Payable to the Pension Plan – At June 30, 2018, the City reported a payable of \$1,352,283 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

Note 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 9, the City of Covington participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 9, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2018, the employer's contribution was 4.70% to the insurance trust for non-hazardous job classifications and 9.35% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2018, the City contributed \$280,968, or 100% of the required contribution for non-hazardous job classifications, and \$1,523,131, or 100% of the required contribution for hazardous job classifications.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - continued

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net		
OPEB Liability	Non-hazardous	Hazardous
\$ 29,364,452	\$ 4,858,997	\$ 24,505,455

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was as follows:

Non-hazardous	Hazardous
.242%	2.96%

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - continued

For the year ended June 30, 2018, the City recognized OPEB expense of \$4,284,415. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources

	NON-HAZARDOUS		HAZARDOUS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
City contributions subsequent to the measurement date	\$ 337,857	\$ -	\$ 1,432,646	\$ -	\$ 1,770,503	\$ -
Proportionate share of deferred outflows at measurement date	1,057,287	-	9,039,033	-	10,096,320	-
Proportionate share of deferred inflows at measurement date	-	254,404	-	1,599,492	-	1,853,896
	<u>\$ 1,395,144</u>	<u>\$ 254,404</u>	<u>\$ 10,471,679</u>	<u>\$ 1,599,492</u>	<u>\$ 11,866,823</u>	<u>\$ 1,853,896</u>

The \$1,770,503 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. The amount includes an adjustment of \$24,711 related to the implicit subsidy and an adjustment of \$8,885 related to retired, re-employed individuals. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Hazardous	Non-Hazardous	Total
2019	\$ 2,151,513	\$ 138,144	\$ 2,289,657
2020	2,151,513	138,144	2,289,657
2021	2,151,513	138,144	2,289,657
2022	985,002	138,144	1,123,146
2023	-	195,553	195,553
2024	-	54,754	54,754
	<u>\$ 7,439,541</u>	<u>\$ 802,883</u>	<u>\$ 8,242,424</u>

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous and Hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	
Pre – 65:	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65:	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – continued

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Nominal Return
U.S. Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	2.0%	2.69%
Total	100%	

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – continued

Discount Rate – The discount rate used to measure the total OPEB liability was 5.84% and 5.96% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

CERS	1% Decrease 4.84%	Discount Rate 5.84%	1% Increase 6.84%
Non-hazardous	\$ 6,182,804	\$ 4,858,997	\$ 3,757,381
CERS	1% Decrease 4.96%	Discount Rate 5.96%	1% Increase 6.96%
Hazardous	\$ 32,840,668	\$ 24,505,455	\$ 17,685,881

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

CERS	1% Decrease	Current trend rate	1% Increase
Non-hazardous	\$ 3,727,101	\$ 4,858,997	\$ 6,330,395
Hazardous	\$ 17,347,035	\$ 24,505,455	\$ 33,365,086

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 11 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major funds and all other governmental funds are presented below:

Fund Balances	General	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<i>Nonspendable</i>				
Prepaid items	\$ 128,902	\$ -	\$ -	\$ 128,902
<i>Restricted for</i>				
Capital projects	-	2,924,098	-	2,924,098
Debt service	421,769	-	-	421,769
HUD programs	-	-	922,485	922,485
Other grant programs	-	-	623,989	623,989
<i>Total Restricted</i>	<u>421,769</u>	<u>2,924,098</u>	<u>1,546,474</u>	<u>4,892,341</u>
<i>Committed to</i>				
Fiscal Stability Ordinance	5,530,433	-	-	5,530,433
Infrastructure	-	-	1,955,000	1,955,000
Waste	-	-	-	-
Ambulance	-	-	159,458	159,458
Fleet, Equipment & Technology	-	-	625,792	625,792
EDF	-	-	436,955	436,955
TIF	-	-	1,475,483	1,475,483
One Stop Shop	-	-	515,606	515,606
<i>Total Committed</i>	<u>5,530,433</u>	<u>-</u>	<u>5,168,294</u>	<u>10,698,727</u>
<i>Unassigned</i>	<u>8,514,395</u>	<u>-</u>	<u>(437,511)</u>	<u>8,076,884</u>
<i>Total Fund Balance</i>	<u>\$ 14,595,499</u>	<u>\$ 2,924,098</u>	<u>\$ 6,277,257</u>	<u>\$ 23,796,854</u>

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 11 - Fund Balances – continued

At June 30, 2018, the following non-major governmental funds had a deficit fund balance:

HOME Consortium	\$	170,477
Waste	\$	110,811
Devou Park Master Plan	\$	4,776
Police & Fire Supplemental Pay	\$	151,447

The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The City established the Fiscal Stability Ordinance, O-11-16 during the fiscal year ended June 30, 2016. This ordinance requires the establishment of a Minimum General Fund Unreserved Fund and commits carryover funds at each fiscal year end for various purposes. The plan specifies that the Minimum General Fund Unreserved Fund should be equivalent to at least two months of budgeted operating revenues, as recommended by the Government Finance Officers Association (GFOA), which was determined to be \$7,835,675. The Plan calls for the City to make annual contributions to the unreserved fund equal to a minimum of ten percent over the previous fiscal year's progress toward the required minimum balance. As of June 30, 2018, the balance in the Minimum General Fund Unreserved Fund is \$5,490,433. The goal of this legislation is to stabilize the City's revenue and expenditure cycles, mitigating financial risks and improving the City's credit rating. It also follows the three themes outlined by the City: Responsibility, Sustainability, and Investment.

Note 12 - Contingencies

The City is a defendant in a number of lawsuits pertaining to matters that are incidental to performing routine governmental activities. Management anticipates that any potential claims against the City would be covered by the self-insurance reserve and would not materially affect the City's financial position.

Amounts grantor agencies pay to the City are subject to audit and adjustments by the grantor, principally the federal government. The grantor may require refunding by the City for any disallowed costs. Management cannot determine amounts grantors may disallow in future periods. However, based on prior experience, management believes any refunds would be immaterial to its financial statement as of June 30, 2018.

Note 13 - Tax Abatements

The City is authorized by Kentucky Revised Statutes and Chapter 116 of the Covington Code of Ordinances to enter into payroll tax abatement agreements to provide incentives for the creation or retention of businesses in the City; for the rehabilitation of vacant properties for retail, office, or commercial use; and to establish uniform timelines for the disbursement of job development incentive funds. The City Commission determines the percentage amount and duration of the tax incentives. The amount of the abatement are refunded to businesses each year once they have successfully applied for the incentive and met all the requirements to participate in the incentive.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 13 - Tax Abatements - continued

For the ended June 30, 2018, the City abated payroll taxes totaling approximately \$143,771 under this program, including the following tax abatements agreements that each exceeded 10 percent of the total, which is the percentage the City considers to be material for purposes of individual disclosure:

<u>Type of Business</u>	<u>Purpose</u>	<u>Percent Abated</u>	<u>Amount Abated</u>
RAH Reality LLC / Fruit Storage Inc.	Vacant Property Rehabilitation Incentive	50% to 75%	\$ 38,635
Huntington National Bank	Covington Jobs Development New Business Incentive	41%	\$ 46,375
Renaissance Investment	Covington Jobs Development Retention Incentive	Various	\$ 20,000

The City is authorized by Kentucky Revised Statutes to enter into property tax abatement agreements for the purpose of attracting new development. Developers can acquire land located in Covington for the purpose of development. The City can agree to abatement of certain real estate ad valorem taxes based upon specific provisions and the developer can agree to make Payments in Lieu of Taxes (PILOT) and enter into an agreement in Lieu of Taxes. The City Commission determines the percentage amount and duration of the tax incentive. The amount of the abatement is automatically deducted from the property owner's PILOT bill.

For the year ended June 30, 2018, the City abated Property taxes totaling \$91,169 under this program, which consisted of the following tax abatement agreements:

<u>Type of Business</u>	<u>Purpose</u>	<u>Percent Abated</u>	<u>Amount Abated</u>
Ascent at Roebling's Bridge Condominiums	Built Luxury Condominiums	12.5%	\$ 76,454
Towne Center City LLC	Built Luxury Apartments	50%	\$ 14,715

Note 14 – Restatement of Net Position

Implementation of new accounting standard GASB Statement No. 75

During 2018 the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

City of Covington, Kentucky
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 – Restatement of Net Position - continued

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Governmental Activities

Net position, at beginning of year	\$ (19,643,896)
Beginning net OPEB liability	<u>(16,837,613)</u>
Net position, at beginning of year, as restated	<u><u>\$ (36,481,509)</u></u>

**Required
Supplementary
Information**

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures, and Changes in

Fund Balance - Budget and Actual -

General Fund

Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues:				
Taxes:				
Real property	\$ 7,473,080	\$ 7,473,080	\$ 7,297,349	\$ (175,731)
Franchise	2,140,759	2,250,000	2,229,746	(20,254)
Insurance premium	7,134,530	7,134,530	7,592,489	457,959
Licenses and permits:				
Payroll license fees	24,861,370	25,360,000	26,291,746	931,746
Net profits license fees	3,649,134	3,649,134	2,980,516	(668,618)
Liquor and beer licenses	60,000	135,288	164,168	28,880
Other licenses and permits	159,850	159,850	153,970	(5,880)
Intergovernmental	910,000	910,000	1,611,053	701,053
Fines and forfeitures	303,025	267,362	221,225	(46,137)
Charges for services:				
Waste fees	129,386	129,386	124,780	(4,606)
Parking	1,910,000	1,910,000	1,858,867	(51,133)
Squad runs	1,433,875	1,200,000	-	(1,200,000)
Rental property	300,200	300,200	294,224	(5,976)
Other	23,045	23,045	91,758	68,713
Interest	190,000	190,000	207,207	17,207
Miscellaneous	317,550	317,550	825,863	508,313
Total revenues	<u>\$50,995,804</u>	<u>\$51,409,425</u>	<u>\$51,944,961</u>	<u>\$ 535,536</u>
Expenditures:				
Current:				
General government:				
Administration department:				
Payroll	\$ 1,557,306	\$ 1,568,001	\$ 1,611,533	\$ (43,532)
Contractual services	2,194,824	1,782,811	1,717,073	65,738
Materials and supplies	23,550	27,218	25,029	2,189
Miscellaneous	99,552	40,448	36,225	4,223
Total administrative	<u>\$ 3,875,232</u>	<u>\$ 3,418,478</u>	<u>\$ 3,389,860</u>	<u>\$ 28,618</u>

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures, and Changes in

Fund Balance - Budget and Actual -

General Fund - *continued*

Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<i>Expenditures - continued</i>				
Current - <i>continued</i> :				
General government - <i>continued</i> :				
Legal department:				
Payroll	\$ 774,344	\$ 687,999	\$ 682,673	\$ 5,326
Contractual services	192,908	142,692	50,987	91,705
Materials and supplies	8,800	8,650	5,887	2,763
Miscellaneous	12,860	13,010	9,941	3,069
Total legal	<u>988,912</u>	<u>852,351</u>	<u>749,488</u>	<u>102,863</u>
Finance department:				
Payroll	1,037,987	750,000	820,804	(70,804)
Contractual services	503,711	493,265	429,126	64,139
Materials and supplies	14,621	24,947	18,100	6,847
Miscellaneous	18,350	18,470	18,496	(26)
Total finance	<u>1,574,669</u>	<u>1,286,682</u>	<u>1,286,526</u>	<u>156</u>
Total general government	<u>6,438,813</u>	<u>5,557,511</u>	<u>5,425,874</u>	<u>131,637</u>
Police:				
Payroll	12,904,365	13,128,000	13,855,028	(727,028)
Contractual services	439,679	439,679	413,183	26,496
Materials and supplies	509,758	433,771	350,150	83,621
Miscellaneous	22,050	23,550	12,773	10,777
Total police	<u>13,875,852</u>	<u>14,025,000</u>	<u>14,631,134</u>	<u>(606,134)</u>
Fire:				
Payroll	12,350,258	12,325,000	12,909,234	(584,234)
Contractual services	430,915	498,950	441,622	57,328
Materials and supplies	353,250	370,210	369,106	1,104
Miscellaneous	4,600	5,840	5,341	499
Total fire	<u>\$13,139,023</u>	<u>\$13,200,000</u>	<u>\$13,725,303</u>	<u>\$ (525,303)</u>

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures, and Changes in

Fund Balance - Budget and Actual -

General Fund - *continued*

Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<i>Expenditures - continued</i>				
Current - <i>continued</i> :				
Public improvements:				
Payroll	\$ 4,819,079	\$ 4,700,001	\$ 4,594,379	\$ 105,622
Contractual services	707,232	674,477	443,730	230,747
Materials and supplies	1,462,237	1,321,056	1,024,797	296,259
Miscellaneous	3,900	4,466	1,883	2,583
Total public improvement	<u>6,992,448</u>	<u>6,700,000</u>	<u>6,064,789</u>	<u>635,211</u>
Community development:				
Payroll	961,287	1,110,823	1,065,153	45,670
Contractual services	1,133,289	792,462	544,983	247,479
Materials and supplies	46,317	51,939	32,017	19,922
Miscellaneous	7,909	8,609	4,218	4,391
Total community development	<u>2,148,802</u>	<u>1,963,833</u>	<u>1,646,371</u>	<u>317,462</u>
Parking garage:				
Contractual services	<u>890,147</u>	<u>890,147</u>	<u>900,712</u>	<u>(10,565)</u>
Total parking garages	<u>890,147</u>	<u>890,147</u>	<u>900,712</u>	<u>(10,565)</u>
Capital outlay:				
General government	<u>-</u>	<u>-</u>	<u>110,816</u>	<u>(110,816)</u>
Total capital outlay	<u>-</u>	<u>-</u>	<u>110,816</u>	<u>(110,816)</u>
Debt service:				
Principal	3,162,784	3,305,000	3,500,629	(195,629)
Interest	<u>1,650,000</u>	<u>1,830,000</u>	<u>1,601,784</u>	<u>228,216</u>
Total debt service	<u>4,812,784</u>	<u>5,135,000</u>	<u>5,102,413</u>	<u>32,587</u>
Total expenditures	<u>\$48,297,869</u>	<u>\$47,471,491</u>	<u>\$47,607,412</u>	<u>\$ (135,921)</u>

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures, and Changes in

Fund Balance - Budget and Actual -

General Fund - *concluded*

Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<i>Expenditures - concluded</i>				
Excess (deficiency) of revenues over (under) expenditures	\$ 2,697,935	\$ 3,937,934	\$ 4,337,549	\$ 399,615
<i>Other Financing Sources (Uses)</i>				
Transfers in	1,764,266	1,350,645	1,445,074	94,429
Transfers out	(3,884,639)	(5,288,779)	(4,208,818)	1,079,961
Proceeds on sale of assets	<u>200</u>	<u>200</u>	<u>67,664</u>	<u>67,464</u>
Total other financing sources (uses)	<u>(2,120,173)</u>	<u>(3,937,934)</u>	<u>(2,696,080)</u>	<u>1,241,854</u>
Net change in fund balance	577,762	-	1,641,469	<u>\$ 1,641,469</u>
Fund balance, beginning of year	<u>12,954,030</u>	<u>12,954,030</u>	<u>12,954,030</u>	
Fund balance, end of year	<u>\$13,531,792</u>	<u>\$12,954,030</u>	<u>\$14,595,499</u>	

CITY OF COVINGTON, KENTUCKY

Required Supplementary Information -

Employees' Retirement Plan

Fiscal Years 2018, 2017, 2016, 2015 and 2014 ⁽¹⁾

	2018	2017	2016	2015	2014
Schedule of City Contributions					
Actuarially determined contribution	\$ 203,351	\$ 203,351	\$ 183,493	\$ 183,493	\$ 138,459
Contributions in relation to the actuarially determined contribution	<u>187,000</u>	<u>195,000</u>	<u>127,078</u>	<u>127,078</u>	<u>138,459</u>
Contribution deficiency (excess)	<u>\$ 16,351</u>	<u>\$ 8,351</u>	<u>\$ 56,415</u>	<u>\$ 56,415</u>	<u>\$ -</u>
Covered payroll	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Actual contributions as a percentage of covered payroll	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Schedule of Changes in the Net Position Liability and Related Ratios					
Total pension liability					
Interest	\$ 214,819	\$ 155,134	\$ 264,726	\$ 330,480	\$ 342,966
Benefit changes	-	80,924	-	-	64,980
Difference between expected and actual experience	(21,834)	(54,286)	(444,003)	(185,296)	(20,562)
Changes of assumptions	(34,982)	(1,049,356)	875,460	1,028,917	24,786
Benefit payments	<u>(448,698)</u>	<u>(488,931)</u>	<u>(503,390)</u>	<u>(568,978)</u>	<u>(587,963)</u>
Net change in total pension liability	(290,695)	(1,356,515)	192,793	605,123	(175,793)
Total pension liability - beginning	<u>4,127,151</u>	<u>5,483,666</u>	<u>5,290,873</u>	<u>4,685,750</u>	<u>4,861,543</u>
Total pension liability - ending	<u>\$ 3,836,456</u>	<u>\$ 4,127,151</u>	<u>\$ 5,483,666</u>	<u>\$ 5,290,873</u>	<u>\$ 4,685,750</u>
Plan fiduciary net position					
Contributions-employer	\$ 187,000	\$ 195,000	\$ 127,078	\$ 127,078	\$ 138,459
Other	-	-	-	-	67
Net investment income	262,030	301,655	(129,228)	(132,623)	474,728
Benefit payments	(448,698)	(488,931)	(503,390)	(568,978)	(623,756)
Administrative expense	<u>(3,900)</u>	<u>(18,024)</u>	<u>(6,800)</u>	<u>-</u>	<u>(12,221)</u>
Net change in plan fiduciary net position	(3,568)	(10,300)	(512,340)	(574,523)	(22,723)
Plan fiduciary net position - beginning	<u>1,969,578</u>	<u>1,979,878</u>	<u>2,492,218</u>	<u>3,066,741</u>	<u>3,089,464</u>
Plan fiduciary net position - ending	<u>\$ 1,966,010</u>	<u>\$ 1,969,578</u>	<u>\$ 1,979,878</u>	<u>\$ 2,492,218</u>	<u>\$ 3,066,741</u>
Net pension liability	<u>\$ 1,870,446</u>	<u>\$ 2,157,573</u>	<u>\$ 3,503,788</u>	<u>\$ 2,798,655</u>	<u>\$ 1,619,009</u>
Plan fiduciary net position as percentage of the total pension liability	51.25%	47.72%	36.11%	47.10%	65.45%
Covered payroll	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Net pension liability as a percentage of covered payroll	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Schedule of Investment Returns					
Annual money-weighted rate of return, net of investment expense	9.90%	5.70%	-3.74%	-3.70%	16.20%

(1) - Only fiscal years 2018, 2017, 2016, 2015, and 2014 were available. The City will continue to present information for years available until a full 10-year trend is compiled.

(2) - No active employees participating in the plan.

CITY OF COVINGTON, KENTUCKY

Required Supplementary Information -

Police and Firemen's Retirement Plan

 Fiscal Years 2018, 2017, 2016, 2015 and 2014 ⁽¹⁾

	2018	2017	2016	2015	2014
Schedule of City Contributions					
Actuarially determined contribution	\$ 577,711	\$ 577,711	\$ 445,224	\$ 445,224	\$ 283,601
Contributions in relation to the actuarially determined contribution	551,000	573,000	269,327	269,327	384,806
Contribution deficiency (excess)	\$ 26,711	\$ 4,711	\$ 175,897	\$ 175,897	\$ (101,205)
Covered payroll	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Actual contributions as a percentage of covered payroll	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Schedule of Changes in the Net Position Liability and Related Ratios					
Total pension liability					
Interest	\$ 595,322	\$ 385,334	\$ 628,379	\$ 726,953	\$ 774,059
Benefit changes	209,181	146,022	-	-	38,609
Difference between expected and actual experience	(218,038)	123,207	57,418	124,618	(17,688)
Changes of assumptions	(102,614)	(3,069,911)	2,400,570	3,678,886	-
Benefit payments	(1,262,330)	(1,348,765)	(1,382,618)	(1,406,659)	(1,438,900)
Net change in total pension liability	(778,479)	(3,764,113)	1,703,749	3,123,798	(643,920)
Total pension liability - beginning	11,446,749	15,210,862	13,507,113	10,383,315	11,027,235
Total pension liability - ending	\$ 10,668,270	\$ 11,446,749	\$ 15,210,862	\$ 13,507,113	\$ 10,383,315
Plan fiduciary net position					
Contributions-employer	\$ 551,000	\$ 573,000	\$ 269,327	\$ 269,327	\$ 359,506
Impounding lot	-	-	-	2,578	30,383
Net investment income	753,872	592,661	(240,496)	(253,088)	1,133,103
Benefit payments	(1,262,330)	(1,348,765)	(1,382,618)	(1,403,457)	(1,446,162)
Administrative expense	(4,000)	(7,080)	(7,200)	(7,869)	(28,113)
Net change in plan fiduciary net position	38,542	(190,184)	(1,360,987)	(1,392,509)	48,717
Plan fiduciary net position - beginning	4,802,140	4,992,324	6,353,311	7,745,820	7,697,103
Plan fiduciary net position - ending	\$ 4,840,682	\$ 4,802,140	\$ 4,992,324	\$ 6,353,311	\$ 7,745,820
Net pension liability	\$ 5,827,588	\$ 6,644,609	\$ 10,218,538	\$ 7,153,802	\$ 2,637,495
Plan fiduciary net position as percentage of the total pension liability	45.37%	41.95%	32.82%	47.04%	74.60%
Covered payroll	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Net pension liability as a percentage of covered payroll	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Schedule of Investment Returns					
Annual money-weighted rate of return, net of investment expense	9.90%	10.90%	-3.56%	-3.95%	16.48%

(1) - Only fiscal years 2018, 2017, 2016, 2015, and 2014 were available. The City will continue to present information for years available until a full 10-year trend is compiled.

(2) - No active employees participating in the plan.

CITY OF COVINGTON, KENTUCKY

Notes to Required Supplementary Information
Year Ended June 30, 2018

Note 1. Valuation Date: Actuarially determined contribution rates are calculated as of July 1st preceding the fiscal year end in which contributions are reported.

Note 2. Benefit Changes: The City granted an ad hoc COLA increase of 1.5%, effective as of January 1, 2014, for participants of the Employees' Retirement Plan. The City also granted an ad hoc COLA increases of 2.0%, effective July 1, 2013, and 1.5%, effective July 1, 2014, for participants of the Police and Firemen's Retirement Plan.

Note 3. Change in Assumptions: In 2016, the discount rate was revised in accordance with the City's investment policy statement. The mortality table was updated to the current table and projection to better reflect anticipated future mortality experience under the plan.

Note 4. Methods and Assumptions Used to Determine Contribution Rates:

	Employees' Retirement Plan	Police and Firemen's Retirement Plan
Actuarial cost method	Entry age	Entry age
Amortization method	20-year closed amortization	20-year closed amortization
Asset valuation method	Market Value	Market Value
Investment rate of return	5.5%, compounded annually net of investment expenses, including inflation	5.5%, compounded annually net of investment expenses, including inflation
Retirement age	Immediate	Immediate
Mortality	RP-2014 Total Mortality Table projected generationally using Scale MP-2016.	RP-2014 Total Mortality Table with Blue Collar adjustment projected generationally using Scale MP-2016

CITY OF COVINGTON, KENTUCKY

Schedule of the Proportionate Share of the Net Pension Liability

Non-hazardous and Hazardous

County Employee Retirement System

Last five fiscal years ⁽¹⁾

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Non-hazardous:					
City's proportion of the net pension liability	0.242%	0.240%	0.242%	0.260%	0.260%
City's proportionate share of the net pension liability	\$ 14,147,444	\$ 11,836,501	\$ 10,425,611	\$ 8,401,100	\$ 9,506,000
City's covered payroll ⁽²⁾	\$ 5,933,424	\$ 5,732,547	\$ 5,670,221	\$ 5,942,202	\$ 5,668,276
City's proportionate share of the net pension liability as a percentage of its covered payroll	238.44%	206.48%	183.87%	141.38%	167.71%
Plan fiduciary net position as a percentage of the total pension liability	53.3%	55.5%	60.0%	66.8%	61.2%
Hazardous:					
City's proportion of the net pension liability	2.96%	2.81%	2.91%	2.85%	2.85%
City's proportionate share of the net pension liability	\$ 66,320,811	\$ 48,235,603	\$ 44,623,090	\$ 34,207,001	\$ 38,200,000
City's covered payroll ⁽²⁾	\$ 16,096,264	\$ 14,877,913	\$ 14,814,779	\$ 14,427,951	\$ 14,110,813
City's proportionate share of the net pension liability as a percentage of its covered payroll	412.03%	324.21%	301.21%	237.09%	270.71%
Plan fiduciary net position as a percentage of the total pension liability	49.8%	54.0%	57.5%	63.4%	57.7%

(1) Information prior to 2014 is not available. The above schedule will present 10 years of historical data, once available.

(2) The measurement date of the net pension liability is one year preceding the fiscal year of the City.

(3) The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll reported on the Schedule of Contributions.

(4) There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

CITY OF COVINGTON, KENTUCKY

Schedule of City Pension Contributions

For the Years Ended June 30, 2018, 2017, 2016, 2015 and 2014 ⁽¹⁾

	2018	2017	2016	2015	2014
Non-hazardous:					
Contractually required contribution	\$ 865,621	\$ 827,713	\$ 710,807	\$ 722,953	\$ 816,459
Contributions in relation to the contractually required contribution	<u>865,621</u>	<u>827,713</u>	<u>710,807</u>	<u>722,953</u>	<u>816,459</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll ⁽²⁾	\$ 5,977,993	\$ 5,933,424	\$ 5,732,547	\$ 5,670,221	\$ 5,942,202
Contributions as a percentage of covered payroll	14.48%	13.95%	12.40%	12.75%	13.74%
Hazardous:					
Contractually required contribution	\$ 3,616,419	\$ 3,494,499	\$ 3,014,265	\$ 3,071,104	\$ 3,140,965
Contributions in relation to the contractually required contribution	<u>3,616,419</u>	<u>3,494,499</u>	<u>3,014,265</u>	<u>3,071,104</u>	<u>3,140,965</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll ⁽²⁾	\$ 16,290,175	\$ 16,096,264	\$ 14,877,913	\$ 14,814,779	\$ 14,427,951
Contributions as a percentage of covered payroll	22.20%	21.71%	20.26%	20.73%	21.77%

(1) Information prior to 2014 is not available. The above schedule will present 10 years of historical data, once available.

(2) The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

(3) Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated directly to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

(4) There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

CITY OF COVINGTON, KENTUCKY**Schedule of the Proportionate Share of the Net OPEB Liability**

Non-hazardous and Hazardous

County Employee Retirement System

Last two fiscal years ⁽¹⁾

	June 30, 2018	June 30, 2017
Non-hazardous:		
City's proportion of the net OPEB liability	0.242%	0.240%
City's proportionate share of the net OPEB liability	\$ 4,858,997	\$ 3,811,252
City's covered payroll ⁽²⁾	\$ 5,933,424	\$ 5,732,547
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	81.89%	66.48%
Plan fiduciary net position as a percentage of the total OPEB liability	52.4%	unavailable
Hazardous:		
City's proportion of the net OPEB liability	2.96%	2.81%
City's proportionate share of the net OPEB liability	\$ 24,505,455	\$ 14,642,905
City's covered payroll ⁽²⁾	\$ 16,096,264	\$ 14,877,913
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	152.24%	98.42%
Plan fiduciary net position as a percentage of the total OPEB liability	59.0%	unavailable

(1) Information prior to 2017 is not available. The above schedule will present 10 years of historical data, once available.

(2) The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

(3) The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll reported on the Schedule of Contributions.

(4) There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

CITY OF COVINGTON, KENTUCKY

Schedule of City OPEB Contributions

For the Years Ended June 30, 2018, 2017, 2016, 2015 and 2014 ⁽¹⁾

	2018	2017	2016	2015	2014
Non-hazardous:					
Contractually required contribution	\$ 280,968	\$ 280,651	\$ 265,551	\$ 278,975	\$ 306,023
Contributions in relation to the contractually required contribution	<u>280,968</u>	<u>280,651</u>	<u>265,551</u>	<u>278,975</u>	<u>306,023</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll ⁽²⁾	\$ 5,977,993	\$ 5,933,424	\$ 5,732,547	\$ 5,670,221	\$ 5,942,202
Contributions as a percentage of covered payroll	4.70%	4.73%	4.63%	4.92%	5.15%
Hazardous:					
Contractually required contribution	\$ 1,523,131	\$ 1,505,001	\$ 1,888,007	\$ 2,011,847	\$ 2,009,814
Contributions in relation to the contractually required contribution	<u>1,523,131</u>	<u>1,505,001</u>	<u>1,888,007</u>	<u>2,011,847</u>	<u>2,009,814</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll ⁽²⁾	\$ 16,290,175	\$ 16,096,264	\$ 14,877,913	\$ 14,814,779	\$ 14,427,951
Contributions as a percentage of covered payroll	9.35%	9.35%	12.69%	13.58%	13.93%

(1) Information prior to 2014 is not available. The above schedule will present 10 years of historical data, once available.

(2) The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net OPEB Liability.

(3) Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated directly to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

(4) There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

CITY OF COVINGTON, KENTUCKY
Notes to Required Supplementary Information
Year Ended June 30, 2018

Note 1. Methods and Assumptions Used to Determine Contribution Rates:

	CERS
Investment rate of return	6.25%, compounded annually net of investment expenses, including inflation
Rate of Inflation	2.30%
Wage Inflation	0.75%
Payroll Growth Assumption	2.00%
Mortality	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males & 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Supplemental Section

Combining Statements And Individual Fund Schedules

CITY OF COVINGTON, KENTUCKY

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. The following are descriptions of each Special Revenue Fund:

Nonmajor Special Revenue Funds:

The **Federal & State Grants Fund** accounts for the revenues and expenditures related to grants awarded by Federal and state agencies.

The **Community Development Block Grant Fund** accounts for entitlements to the City under the provisions of Title I of the Housing and Development Act of 1974. Resources include a combination of block and other entitlement grants. Resources may only be used for activities which are directed toward developing urban communities and economic opportunities for low and moderate-income persons.

The **HOME Program Fund** accounts for resources provided by the U.S. Department of Housing and Urban Development under the HOME Program. Proceeds are used for deferred loans which are used to acquire, construct or rehabilitate housing for low income families.

The **One Stop Shop Fund** accounts for revenue and expenditures generated at the Kentucky Career Center, with rent collected committed to debt service for economic development.

The **Capital Reserve Fund** was established to provide for more reliable funding and investment in the City's infrastructure needs, and to reduce the City's reliance on long-term debt as a financing tool for such needs.

The **Police Forfeiture Justice Fund** accounts for the resources provided for by police forfeitures.

The **HOME Consortium Fund** was established to administer a HOME Program for a consortium of non-entitlement cities in Northern Kentucky, including Newport, Bellevue, Dayton, Ludlow, and Bromley. HOME funds are used to provide assistance to persons to purchase a home, owner-occupied rehab programs, and housing development activities with Community Housing Development organizations.

The **Housing Voucher Program Fund** accounts for funds provided to the City by the U.S. Department of Housing and Urban Development Section 8 rent subsidy program. Resources are used for the payment of rent subsidies to landlords on behalf of qualified tenants.

CITY OF COVINGTON, KENTUCKY

Nonmajor Special Revenue Funds:

The **Infrastructure Fund** was established to provide for more reliable funding and reinvestment in the City's infrastructure needs.

The **Covington Economic Development Program (EDF) Fund** was established to provide for more reliable funding of economic development, projects, programs, and services in the City.

The **City Center Covington Development Area Tax Increment Fund (TIF Fund)** was established to account for contributions from the General Fund, Kenton County and Planning and Development Services of Kenton County (PDS) which are pledged to cover the TIF liability.

The **Police & Fire Supplemental Pay Fund** accounts for entitlements received under the State of Kentucky's Policemen and Firemen's Supplemental Pay Programs.

The **Fleet, Equipment, Technology, Facilities, and other Capital Projects Fund** was established to provide for the City's business needs so that services can be efficiently and effectively maintained and delivered, including fleet, equipment, technology, facilities, and other capital projects as determined by the Board of Commissioners.

The **Waste Fund** accounts for revenues and expenditures related to the City's waste management contract.

The **Ambulance Fund** accounts for revenues and expenditures related to the City's ambulance service.

The **Devou Park Maintenance Fund** accounts for all transactions related to the maintenance of roadways and streets within Devou Park.

The **Devou Park Master Plan Fund** accounts for revenues and expenditures of funds allocated for use in Devou Park, from proceeds of the operation of the Drees Pavilion.

INTERNAL SERVICE FUNDS

Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

Internal Service Funds:

The **Liability Self Insurance Fund** accounts for the City's self-insurance of liability claims.

The **Medical Self Insurance Fund** accounts for the City's health and dental insurance programs for City employees.

AGENCY FUND

Agency funds are used to account for assets held in a custodial capacity.

Agency Fund:

The **Real Estate Fund** accounts for Covington's Community Development Initiative to develop vacant or abandoned properties.

CITY OF COVINGTON, KENTUCKY

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Nonmajor Special Revenue Funds																	Total
	Federal & State Grants	Community Development Block Grant	HOME Program	One Stop Shop	Capital Reserve	Police Forfeiture Justice	HOME Consortium	Housing Voucher Program	Infrastructure Fund	EDF	TIF	Police & Fire Supplemental Pay	Fleet Equipment & Technology	Waste	Ambulance	Devou Park Maintenance	Devou Park Master Plan	Nonmajor Governmental Funds
Assets																		
Cash and cash equivalents	\$ 646,891	\$ 295,046	\$ 223,982	\$ 523,200	\$ -	\$ 193,356	\$ -	\$ 650,771	\$ 2,723,522	\$ 452,954	\$ 1,370,060	\$ 295,249	\$ 529,212	\$ 92	\$ 163,831	\$ 284,437	\$ 145,224	\$ 8,497,827
Intergovernmental	1,030,006	603,637	15,547	-	-	-	-	-	-	-	-	89,756	-	-	-	-	-	1,738,946
Notes	-	-	-	-	-	-	-	-	-	546,608	-	-	-	-	-	-	-	546,608
Accounts	7,845	-	-	-	-	-	-	23,031	-	-	105,423	-	-	792,054	-	-	-	928,353
Due from other funds	43,269	-	70,477	-	-	-	-	-	-	-	10,000	-	126,326	615,111	4,697	-	-	869,880
Prepaid items	8,665	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,665
Total assets	<u>\$1,736,676</u>	<u>\$ 898,683</u>	<u>\$ 310,006</u>	<u>\$ 523,200</u>	<u>\$ -</u>	<u>\$ 193,356</u>	<u>\$ -</u>	<u>\$ 673,802</u>	<u>\$ 2,723,522</u>	<u>\$ 999,562</u>	<u>\$ 1,485,483</u>	<u>\$ 385,005</u>	<u>\$ 655,538</u>	<u>\$ 1,407,257</u>	<u>\$ 168,528</u>	<u>\$ 284,437</u>	<u>\$ 145,224</u>	<u>\$ 12,590,279</u>
Liabilities:																		
Accounts payable	\$ 451,222	\$ 503,262	\$ 3	\$ -	\$ -	\$ 5,494	\$ -	\$ 6,280	\$ 13,754	\$ 6,000	\$ 10,000	\$ -	\$ 29,746	\$ -	\$ 9,070	\$ 2,081	\$ -	\$ 1,036,912
Accrued liabilities	-	-	-	-	-	-	-	-	-	-	-	98,845	-	-	-	-	-	98,845
Due to other funds	660,851	248,154	50,771	7,594	-	-	170,477	24,216	754,768	10,000	-	437,607	-	-	-	-	150,000	2,514,438
Unearned revenue	470,832	-	-	-	-	-	-	127,320	-	-	-	-	-	1,122,041	-	-	-	1,720,193
Total liabilities	<u>1,582,905</u>	<u>751,416</u>	<u>50,774</u>	<u>7,594</u>	<u>-</u>	<u>5,494</u>	<u>170,477</u>	<u>157,816</u>	<u>768,522</u>	<u>16,000</u>	<u>10,000</u>	<u>536,452</u>	<u>29,746</u>	<u>1,122,041</u>	<u>9,070</u>	<u>2,081</u>	<u>150,000</u>	<u>5,370,388</u>
Deferred Inflow of Resources:																		
Unavailable revenue	-	-	-	-	-	-	-	-	-	546,607	-	-	-	396,027	-	-	-	942,634
Fund balances:																		
Restricted	153,771	147,267	259,232	-	-	187,862	-	515,986	-	-	-	-	-	-	-	282,356	-	1,546,474
Committed	-	-	-	515,606	-	-	-	-	1,955,000	436,955	1,475,483	-	625,792	-	159,458	-	-	5,168,294
Assigned	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	(170,477)	-	-	-	-	(151,447)	-	(110,811)	-	-	(4,776)	(437,511)
Total fund balances	<u>153,771</u>	<u>147,267</u>	<u>259,232</u>	<u>515,606</u>	<u>-</u>	<u>187,862</u>	<u>(170,477)</u>	<u>515,986</u>	<u>1,955,000</u>	<u>436,955</u>	<u>1,475,483</u>	<u>(151,447)</u>	<u>625,792</u>	<u>(110,811)</u>	<u>159,458</u>	<u>282,356</u>	<u>(4,776)</u>	<u>6,277,257</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$1,736,676</u>	<u>\$ 898,683</u>	<u>\$ 310,006</u>	<u>\$ 523,200</u>	<u>\$ -</u>	<u>\$ 193,356</u>	<u>\$ -</u>	<u>\$ 673,802</u>	<u>\$ 2,723,522</u>	<u>\$ 999,562</u>	<u>\$ 1,485,483</u>	<u>\$ 385,005</u>	<u>\$ 655,538</u>	<u>\$ 1,407,257</u>	<u>\$ 168,528</u>	<u>\$ 284,437</u>	<u>\$ 145,224</u>	<u>\$ 12,590,279</u>

CITY OF COVINGTON, KENTUCKY

Combining Statement of Revenues, Expenditures and

Changes in Fund Balances

Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2018

	Nonmajor Special Revenue Funds																Total	
	Federal & State Grants	Community Development Block Grant	HOME Program	One Stop Shop	Capital Reserve	Police Forfeiture Justice	HOME Consortium	Housing Voucher Program	Infrastructure Fund	EDF	TIF	Police & Fire Supplemental Pay	Fleet Equipment & Technology	Waste	Ambulance	Devou Park Maintenance	Devou Park Master Plan	Nonmajor Governmental Funds
Revenues:																		
Intergovernmental	\$ 1,711,776	\$ 1,366,576	\$ 129,925	\$ -	\$ -	\$ 132,383	\$ 302,409	\$ 6,384,860	\$ -	\$ -	\$ -	\$ 1,170,114	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,198,043
Charges for services	-	-	-	513,515	-	-	-	-	-	72,456	-	-	-	982,064	1,475,485	-	-	3,043,520
Investment earnings	23	-	-	18	-	87	-	150	109	136	56	-	21	9	26	506	36	1,177
Miscellaneous	-	121,531	224,925	-	-	2,207	129,094	54,020	16,754	-	182,461	-	14,522	-	-	139,660	205,047	1,090,221
Total revenues	1,711,799	1,488,107	354,850	513,533	-	134,677	431,503	6,439,030	16,863	72,592	182,517	1,170,114	14,543	982,073	1,475,511	140,166	205,083	15,332,961
Expenditures:																		
Current:																		
General government	-	-	-	-	-	-	-	-	-	223,780	200,000	-	-	4,108	118,195	41,502	1,781	589,366
Police	12,878	-	-	-	-	112,109	-	-	-	-	-	540,047	-	-	-	-	-	665,034
Fire	-	-	-	-	-	-	-	-	-	-	-	630,067	-	-	-	-	-	630,067
Public improvements	442,231	17,392	-	-	-	-	-	-	64,554	-	-	-	-	1,525,411	-	-	-	2,049,588
Community development	2,988	755,854	302,862	127,095	-	-	473,948	6,219,561	-	94,778	-	-	-	-	-	-	-	7,977,086
Debt service:																		
Principal	-	-	-	-	-	-	-	-	-	-	-	-	432,348	-	-	-	-	432,348
Interest	-	-	-	-	-	-	-	-	-	-	-	-	80,941	-	-	-	-	80,941
Capital outlay	1,108,706	558,354	-	-	-	6,277	-	-	526,434	21,498	-	-	442,999	-	-	-	50,502	2,714,770
Total expenditures	1,566,803	1,331,600	302,862	127,095	-	118,386	473,948	6,219,561	590,988	340,056	200,000	1,170,114	956,288	1,529,519	118,195	41,502	52,283	15,139,200
Excess (deficiency) of revenues over (under) expenditures	144,996	156,507	51,988	386,438	-	16,291	(42,445)	219,469	(574,125)	(267,464)	(17,483)	-	(941,745)	(547,446)	1,357,316	98,664	152,800	193,761
Other financing sources (uses):																		
Transfers in	-	-	-	-	-	-	-	-	2,040,488	257,754	1,492,966	-	1,300,916	42,175	-	-	-	5,134,299
Transfers out	(7,363)	(156,486)	-	(528,152)	(700,000)	-	-	-	-	-	-	-	-	-	(1,200,000)	(55,294)	-	(2,647,295)
Total other financing sources (uses)	(7,363)	(156,486)	-	(528,152)	(700,000)	-	-	-	2,040,488	257,754	1,492,966	-	1,300,916	42,175	(1,200,000)	(55,294)	-	2,487,004
Net change in fund balances	137,633	21	51,988	(141,714)	(700,000)	16,291	(42,445)	219,469	1,466,363	(9,710)	1,475,483	-	359,171	(505,271)	157,316	43,370	152,800	2,680,765
Fund balance, beginning of year	16,138	147,246	207,244	657,320	700,000	171,571	(128,032)	296,517	488,637	446,665	-	(151,447)	266,621	394,460	2,142	238,986	(157,576)	3,596,492
Fund balance, end of year	\$ 153,771	\$ 147,267	\$ 259,232	\$ 515,606	\$ -	\$ 187,862	\$ (170,477)	\$ 515,986	\$ 1,955,000	\$ 436,955	\$ 1,475,483	\$ (151,447)	\$ 625,792	\$ (110,811)	\$ 159,458	\$ 282,356	\$ (4,776)	\$ 6,277,257

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Federal & State Grants Fund

Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	\$ 5,445,867	\$ 1,711,776	\$ (3,734,091)
Investment earnings	-	23	23
Miscellaneous	3,852,983	-	(3,852,983)
Total revenues	<u>9,298,850</u>	<u>1,711,799</u>	<u>(7,587,051)</u>
Expenditures:			
Current:			
Police	63,816	12,878	50,938
Fire	492,527	-	492,527
Public improvements	8,178,525	442,231	7,736,294
Community development	474,057	2,988	471,069
Capital outlay	-	1,108,706	(1,108,706)
Total expenditures	<u>9,208,925</u>	<u>1,566,803</u>	<u>7,642,122</u>
Excess (deficiency) of revenues over (under) expenditures	<u>89,925</u>	<u>144,996</u>	<u>55,071</u>
Other financing sources (uses):			
Transfers out	-	(7,363)	(7,363)
Total other financing sources (uses)	<u>-</u>	<u>(7,363)</u>	<u>(7,363)</u>
Net change in fund balance	89,925	137,633	<u>\$ 47,708</u>
Fund balance, beginning of year	<u>16,138</u>	<u>16,138</u>	
Fund balance, end of year	<u>\$ 106,063</u>	<u>\$ 153,771</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Community Development Block Grant Fund

Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	\$ 2,623,275	\$ 1,366,576	\$ (1,256,699)
Miscellaneous	175,000	121,531	(53,469)
Total revenues	<u>2,798,275</u>	<u>1,488,107</u>	<u>(1,310,168)</u>
Expenditures:			
Current:			
Public improvements	1,472,180	17,392	1,454,788
Community development	1,169,609	755,854	413,755
Capital outlay	-	558,354	(558,354)
Total expenditures	<u>2,641,789</u>	<u>1,331,600</u>	<u>1,310,189</u>
Excess (deficiency) of revenues over (under) expenditures	<u>156,486</u>	<u>156,507</u>	<u>21</u>
Other financing sources (uses):			
Transfers out	<u>(156,486)</u>	<u>(156,486)</u>	<u>-</u>
Total other financing sources (uses)	<u>(156,486)</u>	<u>(156,486)</u>	<u>-</u>
Net change in fund balances	-	21	<u>\$ 21</u>
Fund balance, beginning of year	<u>147,246</u>	<u>147,246</u>	
Fund balance, end of year	<u>\$ 147,246</u>	<u>\$ 147,267</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

HOME Program Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 436,698	\$ 129,925	\$ (306,773)
Miscellaneous	<u>247,926</u>	<u>224,925</u>	<u>(23,001)</u>
Total revenues	<u>684,624</u>	<u>354,850</u>	<u>(329,774)</u>
Expenditures:			
Current:			
Community development	<u>684,624</u>	<u>302,862</u>	<u>381,762</u>
Total expenditures	<u>684,624</u>	<u>302,862</u>	<u>381,762</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>51,988</u>	<u>51,988</u>
Net change in fund balance	-	51,988	<u>\$ 51,988</u>
Fund balance, beginning of year	<u>207,244</u>	<u>207,244</u>	
Fund balance, end of year	<u>\$ 207,244</u>	<u>\$ 259,232</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

One Stop Shop Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Miscellaneous	\$ 508,980	\$ 513,515	\$ 4,535
Investment earnings	20	18	(2)
Total revenues	<u>509,000</u>	<u>513,533</u>	<u>4,533</u>
Expenditures:			
Current:			
Community development	<u>177,000</u>	<u>127,095</u>	<u>49,905</u>
Total expenditures	<u>177,000</u>	<u>127,095</u>	<u>49,905</u>
Excess (deficiency) of revenues over (under) expenditures	<u>332,000</u>	<u>386,438</u>	<u>54,438</u>
Other financing sources (uses):			
Transfers out	<u>(530,000)</u>	<u>(528,152)</u>	<u>1,848</u>
Total other financing sources (uses)	<u>(530,000)</u>	<u>(528,152)</u>	<u>1,848</u>
Net change in fund balance	(198,000)	(141,714)	<u>\$ 56,286</u>
Fund balance, beginning of year	<u>657,320</u>	<u>657,320</u>	
Fund balance, end of year	<u>\$ 459,320</u>	<u>\$ 515,606</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Capital Reserve Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<i>Other financing sources (uses):</i>			
Transfers out	\$ (700,000)	\$ (700,000)	\$ -
Total other financing sources (uses)	<u>(700,000)</u>	<u>(700,000)</u>	<u>-</u>
Net change in fund balance	(700,000)	(700,000)	<u>\$ -</u>
Fund balance, beginning of year	<u>700,000</u>	<u>700,000</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Police Forfeiture Justice Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 184,528	\$ 132,383	\$ (52,145)
Investment earnings	100	87	(13)
Miscellaneous	<u>2,250</u>	<u>2,207</u>	<u>(43)</u>
Total revenues	<u>186,878</u>	<u>134,677</u>	<u>(52,201)</u>
Expenditures:			
Current:			
Police	186,878	112,109	74,769
Capital outlay	<u>-</u>	<u>6,277</u>	<u>(6,277)</u>
Total expenditures	<u>186,878</u>	<u>118,386</u>	<u>68,492</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>16,291</u>	<u>16,291</u>
Net change in fund balance	-	16,291	<u>\$ 16,291</u>
Fund balance, beginning of year	<u>171,571</u>	<u>171,571</u>	
Fund balance, end of year	<u>\$ 171,571</u>	<u>\$ 187,862</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

HOME Consortium Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 472,661	\$ 302,409	\$ (170,252)
Miscellaneous	20,000	129,094	109,094
Total revenues	<u>492,661</u>	<u>431,503</u>	<u>(61,158)</u>
Expenditures:			
Current:			
Community development	<u>492,661</u>	<u>473,948</u>	<u>18,713</u>
Total expenditures	<u>492,661</u>	<u>473,948</u>	<u>18,713</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(42,445)</u>	<u>(42,445)</u>
Net change in fund balance	-	(42,445)	<u>\$ (42,445)</u>
Fund balance, beginning of year	<u>(128,032)</u>	<u>(128,032)</u>	
Fund balance, end of year	<u>\$ (128,032)</u>	<u>\$ (170,477)</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Housing Voucher Program Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 5,884,446	\$ 6,384,860	\$ 500,414
Investment earnings	200	150	(50)
Miscellaneous	20,504	54,020	33,516
Total revenues	<u>5,905,150</u>	<u>6,439,030</u>	<u>533,880</u>
Expenditures:			
Current:			
Community development	<u>5,905,150</u>	<u>6,219,561</u>	<u>(314,411)</u>
Total expenditures	<u>5,905,150</u>	<u>6,219,561</u>	<u>(314,411)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>219,469</u>	<u>219,469</u>
Net change in fund balance	-	219,469	<u>\$ 219,469</u>
Fund balance, beginning of year	<u>296,517</u>	<u>296,517</u>	
Fund balance, end of year	<u>\$ 296,517</u>	<u>\$ 515,986</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Infrastructure Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Investment earnings	\$ 125	\$ 109	\$ (16)
Miscellaneous	<u>-</u>	<u>16,754</u>	<u>16,754</u>
Total revenues	<u>125</u>	<u>16,863</u>	<u>16,738</u>
Expenditures:			
Current:			
Public improvements	\$ 2,975,331	\$ 64,554	\$ 2,910,777
Capital outlay	<u>-</u>	<u>526,434</u>	<u>(526,434)</u>
Total expenditures	<u>2,975,331</u>	<u>590,988</u>	<u>2,384,343</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,975,206)</u>	<u>(574,125)</u>	<u>2,401,081</u>
Other financing sources (uses):			
Transfers in	<u>1,787,193</u>	<u>2,040,488</u>	<u>253,295</u>
Total other financing sources (uses)	<u>1,787,193</u>	<u>2,040,488</u>	<u>253,295</u>
Net change in fund balance	(1,188,013)	1,466,363	<u>\$ 2,654,376</u>
Fund balance, beginning of year	<u>488,637</u>	<u>488,637</u>	
Fund balance, end of year	<u>\$ (699,376)</u>	<u>\$ 1,955,000</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

EDF Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Charges for services	\$ 72,600	\$ 72,456	\$ (144)
Investment earnings	150	136	(14)
Total revenues	<u>72,750</u>	<u>72,592</u>	<u>(158)</u>
Expenditures:			
Current:			
General government	632,999	223,780	409,219
Community development	122,001	94,778	27,223
Capital outlay	-	21,498	(21,498)
Total expenditures	<u>755,000</u>	<u>340,056</u>	<u>414,944</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(682,250)</u>	<u>(267,464)</u>	<u>414,786</u>
Other financing sources (uses):			
Transfers in	<u>489,823</u>	<u>257,754</u>	<u>(232,069)</u>
Total other financing sources (uses)	<u>489,823</u>	<u>257,754</u>	<u>(232,069)</u>
Net change in fund balance	(192,427)	(9,710)	<u>\$ 182,717</u>
Fund balance, beginning of year	<u>446,665</u>	<u>446,665</u>	
Fund balance, end of year	<u>\$ 254,238</u>	<u>\$ 436,955</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Fleet, Equipment, Technology, Facilities, & Other Capital Projects Fund

Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Investment earnings	\$ 25	\$ 21	\$ (4)
Miscellaneous	15,000	14,522	(478)
Total revenues	<u>15,025</u>	<u>14,543</u>	<u>(482)</u>
Expenditures:			
Current:			
General government	24,690	-	24,690
Public improvements	628,226	-	628,226
Debt service:			
Principal	514,000	432,348	81,652
Interest	22,196	80,941	(58,745)
Capital outlay	-	442,999	(442,999)
Total expenditures	<u>1,189,112</u>	<u>956,288</u>	<u>232,824</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,174,087)</u>	<u>(941,745)</u>	<u>232,342</u>
Other financing sources (uses):			
Transfers in	<u>1,174,087</u>	<u>1,300,916</u>	<u>126,829</u>
Total other financing sources (uses)	<u>1,174,087</u>	<u>1,300,916</u>	<u>126,829</u>
Net change in fund balance	-	359,171	<u>\$ 359,171</u>
Fund balance, beginning of year	<u>266,621</u>	<u>266,621</u>	
Fund balance, end of year	<u>\$ 266,621</u>	<u>\$ 625,792</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Waste Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Charges for services	\$ 2,250,250	\$ 982,064	\$ (1,268,186)
Investment earnings	25	9	(16)
Total revenues	<u>2,250,275</u>	<u>982,073</u>	<u>(1,268,202)</u>
Expenditures:			
Current:			
General government	26,000	4,108	21,892
Public improvements	<u>2,474,000</u>	<u>1,525,411</u>	<u>948,589</u>
Total expenditures	<u>2,500,000</u>	<u>1,529,519</u>	<u>970,481</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(249,725)</u>	<u>(547,446)</u>	<u>(297,721)</u>
Other financing sources (uses):			
Transfers in	<u>249,725</u>	<u>42,175</u>	<u>(207,550)</u>
Total other financing sources (uses)	<u>249,725</u>	<u>42,175</u>	<u>(207,550)</u>
Net change in fund balance	-	(505,271)	<u>\$ (505,271)</u>
Fund balance, beginning of year	<u>394,460</u>	<u>394,460</u>	
Fund balance, end of year	<u>\$ 394,460</u>	<u>\$ (110,811)</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Ambulance Fund
Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Charges for services	\$ 1,433,845	\$ 1,475,485	\$ 41,640
Investment earnings	<u>30</u>	<u>26</u>	<u>(4)</u>
Total revenues	<u>1,433,875</u>	<u>1,475,511</u>	<u>41,636</u>
Expenditures:			
Current:			
General government	<u>158,350</u>	<u>118,195</u>	<u>40,155</u>
Total expenditures	<u>158,350</u>	<u>118,195</u>	<u>40,155</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,275,525</u>	<u>1,357,316</u>	<u>81,791</u>
Other financing sources (uses):			
Transfers out	<u>(1,275,525)</u>	<u>(1,200,000)</u>	<u>75,525</u>
Total other financing sources (uses)	<u>(1,275,525)</u>	<u>(1,200,000)</u>	<u>75,525</u>
Net change in fund balance	-	157,316	<u>\$ 157,316</u>
Fund balance, beginning of year	<u>2,142</u>	<u>2,142</u>	
Fund balance, end of year	<u>\$ 2,142</u>	<u>\$ 159,458</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

TIF Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Investment earnings	\$ 100	\$ 56	\$ (44)
Miscellaneous	<u>80,000</u>	<u>182,461</u>	<u>102,461</u>
Total revenues	<u>80,100</u>	<u>182,517</u>	<u>102,417</u>
Expenditures:			
Current:			
General government	<u>1,570,028</u>	<u>200,000</u>	<u>1,370,028</u>
Total expenditures	<u>1,570,028</u>	<u>200,000</u>	<u>1,370,028</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,489,928)</u>	<u>(17,483)</u>	<u>1,472,445</u>
Other financing sources (uses):			
Transfers in	<u>1,489,928</u>	<u>1,492,966</u>	<u>3,038</u>
Total other financing sources (uses)	<u>1,489,928</u>	<u>1,492,966</u>	<u>3,038</u>
Net change in fund balance	-	1,475,483	<u>\$ 1,475,483</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ 1,475,483</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Police & Fire Supplemental Pay Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 936,000	\$ 1,170,114	\$ 234,114
Total revenues	<u>936,000</u>	<u>1,170,114</u>	<u>234,114</u>
Expenditures:			
Current:			
Police	468,000	540,047	(72,047)
Fire	<u>468,000</u>	<u>630,067</u>	<u>(162,067)</u>
Total expenditures	<u>936,000</u>	<u>1,170,114</u>	<u>(234,114)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	<u>\$ -</u>
Fund balance, beginning of year	<u>(151,447)</u>	<u>(151,447)</u>	
Fund balance, end of year	<u>\$ (151,447)</u>	<u>\$ (151,447)</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Devou Park Maintenance Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Investment earnings	\$ 600	\$ 506	\$ (94)
Miscellaneous	<u>124,578</u>	<u>139,660</u>	<u>15,082</u>
Total revenues	<u>125,178</u>	<u>140,166</u>	<u>14,988</u>
Expenditures:			
Current:			
General government	<u>68,323</u>	<u>41,502</u>	<u>26,821</u>
Total expenditures	<u>68,323</u>	<u>41,502</u>	<u>26,821</u>
Excess (deficiency) of revenues over (under) expenditures	<u>56,855</u>	<u>98,664</u>	<u>41,809</u>
Other financing sources (uses):			
Transfers out	<u>(168,841)</u>	<u>(55,294)</u>	<u>113,547</u>
Total other financing sources (uses)	<u>(168,841)</u>	<u>(55,294)</u>	<u>113,547</u>
Net change in fund balance	(111,986)	43,370	<u>\$ 155,356</u>
Fund balance, beginning of year	<u>238,986</u>	<u>238,986</u>	
Fund balance, end of year	<u>\$ 127,000</u>	<u>\$ 282,356</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Devou Park Master Plan Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Investment earnings	\$ 50	\$ 36	\$ (14)
Miscellaneous	<u>357,114</u>	<u>205,047</u>	<u>(152,067)</u>
Total revenues	<u>357,164</u>	<u>205,083</u>	<u>(152,081)</u>
Expenditures:			
Current:			
General government	357,164	1,781	355,383
Capital outlay	<u>-</u>	<u>50,502</u>	<u>(50,502)</u>
Total expenditures	<u>357,164</u>	<u>52,283</u>	<u>304,881</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>152,800</u>	<u>152,800</u>
Net change in fund balance	-	152,800	<u>\$ 152,800</u>
Fund balance, beginning of year	<u>(157,576)</u>	<u>(157,576)</u>	
Fund balance, end of year	<u>\$ (157,576)</u>	<u>\$ (4,776)</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Pension Obligation 2004 Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<i>Other financing sources (uses):</i>			
Transfers out	<u>(401,000)</u>	<u>(401,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(401,000)</u>	<u>(401,000)</u>	<u>-</u>
 Net change in fund balances	 (401,000)	 (401,000)	 \$ <u>-</u>
 Fund balance, beginning of year	 <u>401,000</u>	 <u>401,000</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	

CITY OF COVINGTON, KENTUCKY

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Capital Improvement Fund

Fiscal Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Investment earnings	\$ -	\$ 252	\$ 252
Total revenues	<u>-</u>	<u>252</u>	<u>252</u>
Expenditures:			
Current:			
Public improvements	5,525,322	2,219	5,523,103
Capital outlay	<u>-</u>	<u>1,777,812</u>	<u>(1,777,812)</u>
Total expenditures	<u>5,525,322</u>	<u>1,780,031</u>	<u>3,745,291</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,525,322)</u>	<u>(1,779,779)</u>	<u>3,745,543</u>
Other financing sources (uses):			
Transfers in	<u>-</u>	<u>327,740</u>	<u>327,740</u>
Total other financing sources (uses)	<u>-</u>	<u>327,740</u>	<u>327,740</u>
Net change in fund balances	(5,525,322)	(1,452,039)	<u>\$ 4,073,283</u>
Fund balance, beginning of year	<u>4,376,137</u>	<u>4,376,137</u>	
Fund balance, end of year	<u>\$ (1,149,185)</u>	<u>\$ 2,924,098</u>	

CITY OF COVINGTON, KENTUCKY
Combining Statement of Net Position
Internal Service Funds
June 30, 2018

	Liability Self Insurance	Medical Self Insurance	Total Internal Service Funds
Assets			
Cash and cash equivalents	\$ 888,983	\$ 290,764	\$ 1,179,747
Prepaid expenses	-	44,495	44,495
Due from other funds	203,124	1,065,253	1,268,377
Total assets	<u>1,092,107</u>	<u>1,400,512</u>	<u>2,492,619</u>
Liabilities			
Current Liabilities			
Accounts payable	54,130	19,878	74,008
Claims payable	-	1,510,313	1,510,313
Total liabilities	<u>54,130</u>	<u>1,530,191</u>	<u>1,584,321</u>
Noncurrent Liabilities			
Claims payable	<u>1,300,000</u>	-	<u>1,300,000</u>
Total liabilities	<u>1,354,130</u>	<u>1,530,191</u>	<u>2,884,321</u>
Net Position			
Unrestricted	<u>(262,023)</u>	<u>(129,679)</u>	<u>(391,702)</u>
Total net position	<u>\$ (262,023)</u>	<u>\$ (129,679)</u>	<u>\$ (391,702)</u>

CITY OF COVINGTON, KENTUCKY

Combining Statement of Revenues, Expenses

and Changes in Net Position

Internal Service Funds

Fiscal Year Ended June 30, 2018

	Liability Self Insurance	Medical Self Insurance	Total Internal Service Funds
<i>Operating revenues:</i>			
Insurance premiums	\$ -	\$ 5,163,574	\$ 5,163,574
Other	<u>133,959</u>	<u>22,884</u>	<u>156,843</u>
Total operating revenues	<u>133,959</u>	<u>5,186,458</u>	<u>5,320,417</u>
<i>Operating expenses:</i>			
Contractual services	386,740	617,781	1,004,521
Claims and judgments	<u>114,314</u>	<u>4,610,273</u>	<u>4,724,587</u>
Total operating expenses	<u>501,054</u>	<u>5,228,054</u>	<u>5,729,108</u>
Operating loss	(367,095)	(41,596)	(408,691)
<i>Non-operating revenues (expenses):</i>			
Investment income	<u>9,521</u>	<u>192</u>	<u>9,713</u>
Total non-operating revenues (expenses)	<u>9,521</u>	<u>192</u>	<u>9,713</u>
Loss before transfers	(357,574)	(41,404)	(398,978)
Transfers in	<u>200,000</u>	<u>150,000</u>	<u>350,000</u>
Change in net position	(157,574)	108,596	(48,978)
Net position, beginning of year	<u>(104,449)</u>	<u>(238,275)</u>	<u>(342,724)</u>
Net position, end of year	<u>\$ (262,023)</u>	<u>\$ (129,679)</u>	<u>\$ (391,702)</u>

CITY OF COVINGTON, KENTUCKY
Combining Statement of Cash Flows
Internal Service Funds
Fiscal Year Ended June 30, 2018

	Liability Self Insurance	Medical Self Insurance	Total Internal Service Funds
<i>Cash flows from operating activities:</i>			
Cash received from other funds	\$ 602,273	\$ 4,853,311	\$ 5,455,584
Cash received from other income	133,959	22,884	156,843
Cash payments for claims	<u>(1,796,902)</u>	<u>(5,256,272)</u>	<u>(7,053,174)</u>
Net cash flows (used by) operating activities	<u>(1,060,670)</u>	<u>(380,077)</u>	<u>(1,440,747)</u>
<i>Cash flows from noncapital financing activities:</i>			
Transfers	<u>200,000</u>	<u>150,000</u>	<u>350,000</u>
Net cash provided by noncapital financing activities	<u>200,000</u>	<u>150,000</u>	<u>350,000</u>
<i>Cash flows from investing activities:</i>			
Interest income	<u>9,521</u>	<u>192</u>	<u>9,713</u>
Net cash provided by investing activities	<u>9,521</u>	<u>192</u>	<u>9,713</u>
Net change	(851,149)	(229,885)	(1,081,034)
Cash and cash equivalents, beginning of year	<u>1,740,132</u>	<u>520,649</u>	<u>2,260,781</u>
Cash and cash equivalents, end of year	<u>\$ 888,983</u>	<u>\$ 290,764</u>	<u>\$ 1,179,747</u>
Reconciliation of operating loss to net cash flows from operating activities			
Operating loss	\$ (367,095)	\$ (41,596)	\$ (408,691)
Adjustments to reconcile operating loss to net cash flows from operating activities:			
Changes in assets and liabilities:			
Prepaid expenses	-	(44,495)	(44,495)
Due from/to other funds	602,273	(310,263)	292,010
Accounts payable	(27,568)	5,940	(21,628)
Claims payable	<u>(1,268,280)</u>	<u>10,337</u>	<u>(1,257,943)</u>
Net cash flows from operating activities	<u>\$ (1,060,670)</u>	<u>\$ (380,077)</u>	<u>\$ (1,440,747)</u>

CITY OF COVINGTON, KENTUCKY

Statement of Changes in Fiduciary Net Position

Agency Funds

Fiscal Year Ended June 30, 2018

	Beginning Balance 7/1/2017	Additions	Deductions	Ending Balance 6/30/2018
Real Estate Transactions				
Assets:				
Cash	<u>\$ 5,426</u>	<u>\$ 9,597</u>	<u>\$ 8,376</u>	<u>\$ 6,647</u>
Liabilities:				
Due to others	<u>\$ 5,426</u>	<u>\$ 9,597</u>	<u>\$ 8,376</u>	<u>\$ 6,647</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Combining Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Employees' Retirement	Police and Firemen's Retirement	Combined Pension Trusts
Assets			
Cash and cash equivalents	\$ 167,135	\$ 155,652	\$ 322,787
Bond mutual funds	865,152	1,886,048	2,751,200
Equity mutual funds	333,138	727,811	1,060,949
Other assets	<u>1,196,327</u>	<u>2,597,693</u>	<u>3,794,020</u>
Total assets	<u>2,561,752</u>	<u>5,367,204</u>	<u>7,928,956</u>
Liabilities			
Due to the primary government	591,842	530,422	1,122,264
Due to (from) others	<u>3,900</u>	<u>(3,900)</u>	<u>-</u>
	<u>595,742</u>	<u>526,522</u>	<u>1,122,264</u>
Net Position			
Net position restricted for pensions	<u>\$ 1,966,010</u>	<u>\$ 4,840,682</u>	<u>\$ 6,806,692</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY

Combining Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Fiscal Year Ended June 30, 2018

	<u>Employees'</u> <u>Retirement</u>	<u>Police and</u> <u>Firemen's</u> <u>Retirement</u>	<u>Combined</u> <u>Pension</u> <u>Trusts</u>
Additions			
Contributions:			
Employer contributions	\$ 284,000	\$ 837,500	\$ 1,121,500
Impounding lot	-	1,065	1,065
Miscellaneous	-	256	256
	<u>284,000</u>	<u>838,821</u>	<u>1,122,821</u>
Investment return:			
Interest and dividends	53,502	117,546	171,048
Net appreciation in fair value of investments	<u>164,000</u>	<u>385,953</u>	<u>549,953</u>
	<u>217,502</u>	<u>503,499</u>	<u>721,001</u>
	<u>501,502</u>	<u>1,342,320</u>	<u>1,843,822</u>
Deductions			
Benefit payments	448,699	1,260,241	1,708,940
Administration	<u>5,461</u>	<u>6,410</u>	<u>11,871</u>
	<u>454,160</u>	<u>1,266,651</u>	<u>1,720,811</u>
	47,342	75,669	123,011
Net position, beginning of year	<u>1,918,668</u>	<u>4,765,013</u>	<u>6,683,681</u>
Net position, end of year	<u>\$ 1,966,010</u>	<u>\$ 4,840,682</u>	<u>\$ 6,806,692</u>

See accompanying notes to the basic financial statements.

STATISTICAL SECTION

The Statistical Section of the City of Covington's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding the information in the financial statements, notes and supplementary information as it pertains to the overall financial health of the City.

Section 1: Financial Trend Data:

Schedules 1-4

These tables contain trend information to help the reader understand how the City's financial status has changed in recent years.

Section 2: Revenue Capacity:

Schedules 5-10

These tables contain information to help the reader assess the City's most significant local sources of revenue.

Section 3: Debt Capacity:

Schedules 11-13

These tables include information to help the reader assess the affordability of the City's current outstanding debt and its ability to issue additional debt in the future.

Section 4: Demographic and Economic Information:

Schedules 14-15

This table shows demographic and economic indicators to help the reader understand the local environment in which the City's financial activities take place.

Section 5: Operating Information:

Schedules 16-19

These tables contain service and infrastructure data to help the reader understand how the information contained in this report relates to the City's services and activities.

Schedule 1
City of Covington, Kentucky
Net Position by Component,
Current and Past Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	<i>(as restated)</i> 2018	<i>(as restated)</i> 2017	2016	<i>(as restated)</i> 2015	<i>(as restated)</i> 2014	<i>(as restated)</i> 2013	2012	2011	2010	2009
Governmental Activities / Primary Government										
Net Investment in Capital Assets	\$ 27,309,024	\$ 23,790,740	\$ 26,724,688	\$ 27,899,604	\$ 29,360,778	\$ 33,666,204	\$ 34,173,497	\$ 36,088,303	\$ 34,539,885	\$ 36,577,167
Restricted for Capital Improvements	2,924,098	4,376,137	-	-	2,614,198	580,454	190,681	1,577,223	-	-
Restricted for Debt Service	421,769	401,000	401,000	401,000	401,000	401,000	-	-	-	-
Restricted for HUD Programs	922,485	651,007	632,116	2,938,475	3,622,306	3,565,125	16,648,464	1,318,568	-	-
Restricted for other purposes	623,989	426,695	1,620,898	-	16,139	14,887	-	27,361	91,138	193,693
Unrestricted (deficit)	(72,524,243)	(66,127,088)	(56,738,795)	(59,904,755)	(52,978,362)	(13,385,806)	(4,806,437)	8,933,230	13,587,660	16,638,487
Total Governmental Activities Net Position	<u>\$ (40,322,878)</u>	<u>\$ (36,481,509)</u>	<u>\$ (27,360,093)</u>	<u>\$ (28,665,676)</u>	<u>\$ (16,963,941)</u>	<u>\$ 24,841,864</u>	<u>\$ 46,206,205</u>	<u>\$ 47,944,685</u>	<u>\$ 48,218,683</u>	<u>\$ 53,409,347</u>

Note: The City implemented GASB Statement Nos. 67 and 68 in fiscal year 2014, restating fiscal year 2013. The City implemented GASB Statement No. 75 in fiscal year 2018, restating fiscal year 2017.

Schedule 2
City of Covington, Kentucky
Changes in Net Position
Current and Past Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	(as restated)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Governmental Activities Expenses										
General Government	\$ 7,944,679	\$ 6,604,320	\$ 10,612,219	\$ 12,474,158	\$ 5,916,248	\$ 4,028,857	\$ 4,250,735	\$ 3,814,055	\$ 6,089,518	\$ 12,149,528
Police	20,397,256	14,453,789	16,091,991	13,287,449	14,177,725	15,464,519	16,455,964	16,536,402	16,498,516	15,593,684
Fire	19,695,653	13,176,016	15,301,811	12,882,790	13,060,943	13,727,885	15,180,999	15,318,421	15,048,966	14,224,985
Public Improvements	10,382,962	8,784,729	7,806,788	14,691,139	13,769,904	10,916,212	11,349,786	11,780,808	11,847,116	7,185,210
Recreation	-	-	-	-	-	683,742	711,584	734,672	796,215	2,740,960
Community Development	10,371,116	10,312,912	9,789,169	9,179,648	11,159,338	13,912,337	15,379,018	13,771,124	12,484,045	10,217,357
Parking Garage	900,712	868,353	774,460	738,147	734,598	783,059	768,661	865,947	732,362	701,986
Interest on Long-term Debt	1,654,623	1,984,708	2,171,812	3,000,362	1,654,352	2,181,165	1,324,845	1,676,776	1,716,153	2,052,549
Total Governmental Activities Expenses	71,347,001	56,184,827	62,548,250	66,253,693	60,473,108	61,697,776	65,421,592	64,498,205	65,212,891	64,866,259
Program Revenues										
General Government	2,197,465	2,640,012	1,815,216	1,028,301	940,479	1,214,447	936,996	968,682	1,136,249	993,267
Police	-	-	-	3,891	58,002	133,915	189,671	307,539	412,722	406,557
Fire	-	11,029	1,449,356	1,238,640	1,391,914	1,238,042	1,333,724	1,175,621	1,282,105	1,077,448
Public Improvements	1,245,706	1,098,612	2,952,715	1,292,573	2,343,079	2,506,617	2,342,050	2,082,635	1,918,838	1,859,171
Recreation	-	-	-	-	-	11,739	22,753	-	-	-
Community Development	1,603,315	1,086,948	1,065,050	1,389,251	738,833	79,873	169,209	98,196	79,317	37,833
Parking Garage	1,845,342	2,078,859	2,032,348	1,806,791	1,554,915	1,353,754	1,674,834	1,458,784	1,179,276	1,143,276
Operating Grants and Contributions	11,087,041	10,178,394	9,564,948	8,898,601	10,842,196	11,932,368	12,518,909	13,533,951	10,727,972	9,664,170
Capital Grants and Contributions	1,711,776	456,927	867,341	1,143,363	2,317,723	1,290,469	1,647,156	2,558,805	1,624,312	1,650,920
Total Governmental Activities Revenues	19,690,645	17,550,781	19,746,974	16,801,411	20,187,141	19,761,224	20,835,302	22,184,213	18,360,791	16,832,642
Program Revenues Over (Under) Expenses	(51,656,356)	(38,634,046)	(42,801,276)	(49,452,282)	(40,285,967)	(41,936,552)	(44,586,290)	(42,313,992)	(46,852,100)	(48,033,617)
General Revenues and Changes in Net Assets										
Taxes										
Real Property-Levied for General Purposes	7,101,877	6,566,434	6,701,787	6,392,706	6,085,654	6,043,907	6,141,332	6,481,511	6,114,035	6,024,885
Personal Property-Levied for General Purposes	660,376	676,397	706,359	654,885	764,100	655,275	796,259	516,905	557,999	653,748
Public Services	2,229,746	2,110,822	1,946,897	2,141,952	2,131,042	2,018,535	1,944,431	2,107,927	2,085,706	2,140,821
Taxes-Levied for Bank Deposits	84,652	73,367	82,872	72,843	65,134	62,729	87,014	71,391	60,603	53,161
Insurance Premium	7,592,489	7,909,903	6,932,552	5,430,601	5,672,059	5,279,824	4,988,428	5,155,801	5,588,067	5,430,628
Payroll	26,291,746	25,097,302	24,216,488	22,791,569	22,222,546	22,974,835	22,764,392	22,595,598	22,850,229	23,697,247
Net Profit	2,980,516	3,325,037	2,924,268	3,161,057	2,829,873	2,710,237	3,011,825	2,404,497	2,285,504	2,555,089
Other	-	-	-	-	-	303,944	805,015	840,953	796,091	790,752
Investment Earnings	208,636	222,575	164,973	3,932	4,287	96,889	23,084	47,503	25,094	112,064
Miscellaneous	664,949	368,406	430,663	497,752	159,730	577,261	2,286,030	1,817,908	1,298,108	1,495,817
Special Item	-	-	-	-	(17,000)	(102,445)	-	-	-	-
Total General Revenues and Transfers	47,814,987	46,350,243	44,106,859	41,147,297	39,917,425	40,620,991	42,847,810	42,039,994	41,661,436	42,954,212
Restatement	-	-	-	(982,647)	-	-	-	-	-	-
Change in Net Position	\$ (3,841,369)	\$ 7,716,197	\$ 1,305,583	\$ (9,287,632)	\$ (368,542)	\$ (1,315,561)	\$ (1,738,480)	\$ (273,998)	\$ (5,190,664)	\$ (5,079,405)

Schedule 3
City of Covington, Kentucky
Fund Balances, Governmental Funds,
Current and Past Nine Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2018	2017	(as restated) 2016	2015	2014	2013	(as restated) 2012	2011	2010	2009
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,414
Unreserved	-	-	-	-	-	-	-	-	342,498	730,555
Nonspendable	128,902	157,023	139,181	123,378	25,515	41,593	98,617	-	-	-
Restricted	421,769	-	-	-	-	-	190,681	1,577,223	-	-
Committed	5,530,433	3,761,124	4,076,011	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	1,345,041	-	-
Unassigned	8,514,395	9,035,883	4,676,717	4,037,235	2,178,928	738,275	1,043,176	698,391	-	-
Total General Fund	14,595,499	12,954,030	8,891,909	4,160,613	2,204,443	779,868	1,332,474	3,620,655	342,498	771,969
All Other Governmental Funds										
Reserved	-	-	-	-	-	-	-	-	-	-
Unreserved										
Special Revenue Funds	-	-	-	-	-	-	-	-	4,007,906	4,821,080
Capital Projects Funds	-	-	-	-	-	-	-	-	(12,984)	158,251
Debt Service Funds	-	-	-	-	-	-	-	-	91,138	193,693
Nonspendable	-	-	-	-	-	250,000	-	-	-	-
Restricted	4,470,572	5,854,839	12,814,908	15,785,120	6,356,203	16,339,191	1,574,894	1,345,929	-	-
Committed	5,168,294	2,955,845	2,489,140	348,076	427,865	299,239	385,496	255,605	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned (deficit)	(437,511)	(437,055)	(287,536)	282,855	(75,586)	-	-	(27,062)	-	-
Total All Other Governmental Funds	9,201,355	8,373,629	15,016,512	16,416,051	6,708,482	16,888,430	1,960,390	1,574,472	4,086,060	5,173,024
Total Governmental Funds	\$ 23,796,854	\$ 21,327,659	\$ 23,908,421	\$ 20,576,664	\$ 8,912,925	\$ 17,668,298	\$ 3,292,864	\$ 5,195,127	\$ 4,428,558	\$ 5,944,993

Schedule 4
City of Covington, Kentucky
Changes in Fund Balances - Governmental Funds
Current and Past Nine Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2018	2017	2016	(as restated) 2015	2014	2013	2012	2011	2010	2009
Revenues										
Taxes	\$ 17,119,584	\$ 17,071,793	\$ 16,042,423	\$ 14,237,675	\$ 14,291,815	\$ 14,029,560	\$ 14,462,247	\$ 14,643,134	\$ 14,987,054	\$ 14,707,297
Licenses and Permits	29,590,400	28,674,704	27,465,856	26,245,715	25,353,330	25,979,427	26,175,310	25,362,255	25,429,776	26,550,329
Intergovernmental	12,809,096	10,616,507	9,862,919	10,022,321	13,142,623	12,897,498	14,510,735	13,684,242	12,166,647	11,691,463
Charges for Services	5,413,149	6,028,757	7,863,434	5,409,631	5,936,837	6,063,670	6,063,323	5,394,348	5,227,073	4,744,058
Fines and Forfeitures	221,225	309,267	304,473	271,735	414,625	367,591	439,189	558,465	746,322	712,072
Investment Earnings	208,636	222,575	165,050	3,932	4,287	96,889	23,084	47,244	24,439	99,619
Miscellaneous	1,916,084	1,189,471	1,556,718	1,474,692	1,045,589	1,845,656	2,449,022	2,004,920	1,351,353	1,557,868
Total Revenues	67,278,174	64,113,074	63,260,873	57,665,701	60,189,106	61,280,291	64,122,910	61,694,608	59,932,664	60,062,706
Expenditures										
General Government	6,015,240	5,846,967	6,583,585	4,405,392	8,990,541	3,982,552	3,618,888	4,315,649	3,785,714	3,783,523
Police	15,296,168	14,333,931	13,393,476	13,537,543	13,945,665	14,207,005	15,588,778	15,913,878	15,593,494	14,886,861
Fire	14,355,370	13,333,336	12,897,000	13,190,569	12,745,412	13,203,841	13,842,762	13,630,059	13,812,934	13,306,319
Public improvements	8,116,595	6,752,337	5,863,844	12,877,279	8,816,579	5,994,547	5,891,702	6,268,883	6,514,905	6,690,503
Recreation	-	-	-	-	-	437,483	475,601	455,212	504,309	2,533,103
Community Development (includes recreation in 2014)	9,623,457	9,856,641	9,397,002	9,162,917	10,864,968	13,051,903	14,104,562	13,075,265	12,175,797	10,138,570
Parking Garage	900,712	868,353	774,460	738,147	731,835	780,016	743,506	865,947	732,362	701,986
Debt Service										
Principal	3,932,977	12,233,087	3,103,572	16,910,676	2,771,777	3,510,165	3,682,521	3,131,379	2,980,841	3,516,517
Interest and Other Charges	1,682,726	1,788,432	2,116,885	1,968,945	1,754,969	2,273,447	1,223,546	1,503,485	1,679,854	2,054,516
Bond Issuance Costs	-	252,629	-	852,255	-	-	-	59,623	-	-
Capital Outlay	4,603,398	13,487,402	5,209,330	1,760,569	8,135,571	5,485,409	5,847,540	4,300,102	4,982,528	6,715,050
Total Expenditures	64,526,643	78,753,115	59,339,154	75,404,292	68,757,317	62,926,368	65,019,406	63,519,482	62,762,738	64,326,948
Excess (Deficit) of Revenues Over Expenditures	2,751,531	(14,640,041)	3,921,719	(17,738,591)	(8,568,211)	(1,646,077)	(896,496)	(1,824,874)	(2,830,074)	(4,264,242)
Other Financing Sources (Uses)										
Proceeds From Issuance of Debt	-	9,185,000	4,000,000	15,070,295	-	-	-	2,806,827	-	4,509,181
Proceeds From Bond Refinancing	-	-	-	14,524,705	-	-	-	315,000	-	-
Premiums on the Issuance of Debt	-	-	-	230,696	-	-	-	-	-	-
Payment to Refunded Lease Escrow Agent	-	-	-	-	-	-	-	(303,694)	-	-
Inception of Capital Leases	-	3,791,165	-	-	-	16,040,000	-	-	-	-
Transfers In	6,907,113	6,743,730	3,168,184	799,305	1,387,729	6,009,757	4,090,194	3,565,394	6,028,123	6,063,518
Transfer Out	(7,257,113)	(7,802,207)	(4,533,184)	(1,909,786)	(2,361,142)	(6,066,893)	(5,101,478)	(3,865,395)	(6,228,123)	(6,747,200)
Lending	-	-	(4,000,000)	-	-	-	-	-	-	-
Proceeds From Short-term Debt	-	-	-	-	-	-	-	-	1,040,563	75,419
Proceeds from Sale of Assets	67,664	141,591	775,038	299,127	33,684	141,092	5,517	13,647	-	-
Total Other Financing Sources (Uses)	(282,336)	12,059,279	(589,962)	29,014,342	(939,729)	16,123,956	(1,005,767)	2,531,779	840,563	3,900,918
Special Item	-	-	-	-	(17,000)	(102,445)	-	-	-	-
Restatement	-	-	-	387,988	-	-	-	-	-	-
Increase (Decrease) in Fund Balance	\$ 2,469,195	\$ (2,580,762)	\$ 3,331,757	\$ 11,663,739	\$ (9,524,940)	\$ 14,375,434	\$ (1,902,263)	\$ 706,905	\$ (1,989,511)	\$ (363,324)
Debt Service as a Percentage of Non-Capital Expenditures	9.56%	21.48%	9.74%	27.06%	8.03%	10.02%	8.11%	7.81%	8.07%	9.67%

Schedule 5
City of Covington, Kentucky
Occupational License Fees - Payroll Withholding
Current and Past Nine Fiscal Years

Fiscal Year	Total Gross Taxable Wages	Total Withholding Fees	Total Direct Rate
2018	\$ 1,073,132,490	\$ 26,291,746	0.0245%
2017	\$ 1,047,293,224	\$ 25,658,684	0.0245%
2016	\$ 1,010,486,122	\$ 24,756,910	0.0245%
2015	\$ 952,288,327	\$ 23,331,064	0.0245%
2014	\$ 940,233,510	\$ 23,035,721	0.0245%
2013	\$ 949,297,388	\$ 23,257,786	0.0245%
2012	\$ 910,575,680	\$ 22,764,392	0.0250%
2011	\$ 903,823,920	\$ 22,595,598	0.0250%
2010	\$ 914,009,160	\$ 22,850,229	0.0250%
2009	\$ 947,889,880	\$ 23,697,247	0.0250%

Source: City of Covington Finance Department

Schedule 6
City of Covington, Kentucky
Principal Occupational Payroll Tax Payers
Current and Nine Fiscal Years Ago

Taxpayer	
2018	2009
Atkins & Pearce Manufacturing	A.C. Nielsen
Club Chef	Atkins & Pearce Manufacturing
Commonwealth of Kentucky	Club Chef
Covington Board of Education	Commonwealth of Kentucky
CTI- Clinical Trial Services	Covington Board of Education
Diocese of Covington Board of Education	Fidelity Investments
Fidelity Investments	Internal Revenue Service
Internal Revenue Service	No. Ky. Mental Health and Retardation Board
Kenton County Fiscal Court	Omnicare
St. Elizabeth Hospital	St. Elizabeth Hospital

Notes: Taxpayer information is listed alphabetically.

Source: City of Covington Finance Department

Schedule 7
City of Covington, Kentucky
Assessed Value and Estimated Actual Value of Taxable Property
Curent and Past Nine Fiscal Years

Fiscal Year	Real Property	Personal Property	Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2018	\$ 2,064,079	\$ 132,986	\$ 83,350	\$ 2,113,715	0.3270
2017	\$ 2,043,987	\$ 137,040	\$ 77,985	\$ 2,103,042	0.3270
2016	\$ 2,106,871	\$ 138,635	\$ 78,889	\$ 2,166,617	0.3130
2015	\$ 2,077,290	\$ 130,602	\$ 77,448	\$ 2,130,444	0.3130
2014	\$ 1,962,172	\$ 139,733	\$ 74,707	\$ 2,027,198	0.3045
2013	\$ 1,906,233	\$ 150,542	\$ 72,839	\$ 1,983,936	0.3045
2012	\$ 2,019,671	\$ 156,875	\$ 65,087	\$ 2,111,459	0.2995
2011	\$ 2,027,907	\$ 168,468	\$ 61,769	\$ 2,134,606	0.2995
2010	\$ 2,014,385	\$ 159,294	\$ 62,311	\$ 2,111,368	0.2995
2009	\$ 1,897,368	\$ 217,242	\$ 59,898	\$ 2,054,712	0.2995

Notes: Property in Covington is reassessed once every four years. City property was reassessed in 2018. The next reassessment will occur in 2022. The reassessment is conducted by the Kenton County Property Value Administrator. The property is assessed at 100% of value.

Values are stated in thousands of dollars

Tax rates are per \$100 of assessed value.

Schedule 8
City of Covington, Kentucky
Direct and Overlapping Property Tax Rates
Current and Past Nine Fiscal Years
(rate per \$100 of assessed value)

Fiscal Year	City Direct Rate	School Districts		County	State	Other	Totals	
		Covington Independent	Kenton County				Covington Schools Area	Kenton County Schools Area
2018	0.3270	1.118	0.638	0.1480	0.122	0.1719	1.8869	1.4069
2017	0.3130	1.099	0.621	0.1480	0.122	0.1715	1.8535	1.3755
2016	0.3130	1.099	0.621	0.1480	0.122	0.1715	1.8535	1.3755
2015	0.3130	1.111	0.609	0.1480	0.122	0.1713	1.8653	1.3633
2014	0.3045	1.132	0.591	0.1480	0.122	0.1713	1.8778	1.3368
2013	0.3045	1.153	0.557	0.1480	0.122	0.1713	1.8988	1.3028
2012	0.2995	1.117	0.557	0.1480	0.122	0.1720	1.8585	1.2985
2011	0.2995	1.056	0.557	0.1480	0.122	0.1740	1.7995	1.3005
2010	0.2995	1.026	0.558	0.1480	0.122	0.1650	1.7605	1.2925
2009	0.2995	0.989	0.558	0.1420	0.122	0.1530	1.7055	1.2745

Notes: Portions of the City of Covington are located in the Kenton County Common School District and taxes are paid to that entity instead of Covington Independent School District. Consequently both rates are shown.

The City's basic property tax may be increased up to the compensating rate plus 4% without being subject to a voter referendum. The compensating rate is defined as that rate which when applied to the current years assessment of property subject to taxation excluding new property and personal property produces an amount of revenue equal to that produced in the preceding year.

Schedule 9
City of Covington, Kentucky
Principal Real Property Tax Payers
Current and Past Nine Fiscal Years

Taxpayer	2018			2017			2016			2015			2014		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Fidelity Properties Inc	\$ 204,181,958	1	7.30%	\$ 184,387,500	1	6.59%	\$ 184,246,829	1	6.59%	\$ 184,387,500	1	6.85%	\$ 184,387,500	1	6.85%
ARCP OFC Covington LLC	82,625,000	2	2.95%	82,625,000	2	2.95%	82,625,000	2	2.95%	-		0.00%	-		0.00%
CPX-Rivercenter Development Corp	58,055,000	3	2.08%	76,991,700	3	2.75%	76,340,000	3	2.73%	82,842,400	2	3.08%	82,844,400	2	3.08%
EHP Rivercenter Landmark	33,578,000	4	1.20%	33,578,000	4	1.20%	33,578,000	4	1.20%	33,578,000	3	1.25%	33,578,000	3	1.25%
Scott Street Land Co. LLLP	-		0.00%	-		0.00%	-		0.00%	32,965,500	4	1.23%	-		0.00%
OH-16 FO Cincinnati	21,783,300	5	0.78%	21,783,300	5	0.78%	21,783,300	5	0.78%	-		0.00%	-		0.00%
CIP II Buckeye Hotel	20,340,000	6	0.73%	-		0.00%	-		0.00%	15,174,000	5	0.56%	15,174,000	4	0.56%
Scott Street Land Co. Inc	10,917,884	8	0.39%	-		0.00%	-		0.00%	14,960,900	6	0.56%	14,960,900	5	0.56%
Northern Kentucky Assisted Living LLC	-		0.00%	18,000,000	6	0.64%	18,000,000	6	0.64%	-		0.00%	-		0.00%
J & S Latonia Centre Ky LLC	-		0.00%	12,454,000	8	0.45%	10,482,000	8	0.37%	12,314,000	7	0.46%	12,314,000	6	0.46%
Atkins & Pearce Manufacturing	-		0.11%	11,460,000	7	0.41%	11,460,000	7	0.41%	11,460,000	8	0.43%	11,460,000	7	0.43%
FMR Kentucky I LLC	10,482,000	9	0.37%	9,550,000	9	0.34%	9,550,000	9	0.34%	9,550,000	9	0.35%	11,184,000	8	0.42%
Trustees Latonia Plaza KY LLC	16,229,962	7	0.58%	-		0.00%	-		0.00%	7,916,000	10	0.29%	7,916,000	9	0.29%
Truss Latonia Plaza KY LLC	9,550,000	10	0.34%	7,916,000	10	0.28%	6,824,500	10	0.24%	-		0.00%	6,824,500	10	0.25%
Total	\$ 467,743,104		16.83%	\$ 458,745,500		16.40%	\$ 454,889,629		16.26%	\$ 405,148,300		15.06%	\$ 380,643,300		14.15%

Taxpayer	2013			2012			2011			2010			2009		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Fidelity Properties Inc	\$ 184,387,500	1	6.85%	\$ 195,571,500	1	9.16%	\$ 193,937,500	1	9.09%	\$ 195,571,500	1	9.41%	\$ 86,021,500	2	4.53%
CPX-Rivercenter Development Corp	82,844,400	2	3.08%	95,878,100	2	4.49%	127,955,600	2	5.99%	140,213,500	2	6.75%	140,183,400	1	7.38%
EHP Rivercenter Landmark	33,578,000	3	1.25%	33,578,000	3	1.57%	-		0.00%	-		0.00%	-		0.00%
CIP II Buckeye Hotel	13,947,100	5	0.52%	13,947,100	5	0.65%	-		0.00%	-		0.00%	-		0.00%
Scott Street Land Co. Inc	14,960,900	4	0.56%	14,960,900	4	0.70%	-		0.00%	-		0.00%	14,960,900	3	0.79%
J & S Latonia Centre Ky LLC	12,314,000	6	0.46%	10,482,000	7	0.49%	14,960,900	3	0.70%	14,960,900	3	0.72%	10,482,000	6	0.55%
Atkins & Pearce Manufacturing	11,460,000	7	0.43%	11,460,000	6	0.54%	10,482,000	6	0.49%	10,482,000	6	0.50%	10,900,000	5	5.70%
FMR Kentucky I LLC	11,184,000	8	0.42%	-		0.00%	11,460,000	5	0.54%	10,900,000	5	0.52%	-		0.00%
Trustees Latonia Plaza KY LLC	7,916,000	9	0.29%	6,824,500	9	0.31%	-		0.00%	-		0.00%	-		0.00%
Truss Latonia Plaza KY LLC	6,824,500	10	0.25%	-		0.00%	-		0.00%	-		0.00%	-		0.00%
Anchor Cogdell Covington LLC	-		0.00%	7,026,000	8	0.49%	6,824,500	8	0.32%	6,565,000	9	0.32%	-		0.00%
OZRE Lodging I LLC	-		0.00%	-		0.00%	-		0.00%	-		0.00%	13,947,100	4	0.73%
Packaging Unlimited	-		0.00%	-		0.00%	13,947,100	4	0.65%	13,947,100	4	0.67%	-		0.00%
CCO LLC	-		0.00%	3,812,500	10	0.31%	8,691,500	7	0.41%	8,691,500	7	0.42%	-		0.00%
Truss Realty	-		0.00%	-		0.00%	6,812,500	9	0.32%	6,812,500	8	0.33%	6,550,000	9	0.35%
Castilinn Company	-		0.00%	-		0.00%	6,565,000	10	0.31%	6,550,000	10	0.32%	6,812,500	7	0.36%
Scottenstein Trust	-		0.00%	-		0.00%	-		0.00%	-		0.00%	6,565,000	8	0.35%
Attria Highland Crossing	-		0.00%	-		0.00%	-		0.00%	-		0.00%	6,480,000	10	0.34%
Total	\$ 379,416,400		14.11%	\$ 393,540,600		18.71%	\$ 401,636,600		18.82%	\$ 414,694,000		19.96%	\$ 302,902,400		21.08%

Source: City of Covington Finance Department

Schedule 10
City of Covington, Kentucky
Property Tax Levies and Collections
Current and Past Nine Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2018	\$ 7,145,767	\$ 6,925,324	96.92%	\$ 91,287	\$ 7,016,611	98.19%
2017	\$ 7,062,522	\$ 6,673,927	94.50%	\$ 16,972	\$ 6,690,899	94.74%
2016	\$ 7,064,377	\$ 6,922,314	97.99%	\$ 27,492	\$ 6,949,806	98.38%
2015	\$ 6,924,630	\$ 6,423,314	92.76%	\$ 434,775	\$ 6,858,089	99.04%
2014	\$ 6,490,788	\$ 5,843,739	90.03%	\$ 289,820	\$ 6,133,559	94.50%
2013	\$ 6,376,341	\$ 6,076,779	95.30%	\$ 258,788	\$ 6,335,567	99.36%
2012	\$ 6,287,872	\$ 6,042,731	96.10%	\$ 174,609	\$ 6,217,340	98.88%
2011	\$ 6,328,051	\$ 6,145,818	97.12%	\$ 141,934	\$ 6,287,752	99.36%
2010	\$ 6,411,125	\$ 6,146,928	95.88%	\$ 119,209	\$ 6,266,137	97.74%
2009	\$ 6,330,592	\$ 6,099,103	96.34%	\$ 89,258	\$ 6,188,361	97.75%

Source: City of Covington Finance Department

Schedule 11
City of Covington, Kentucky
Ratios of Outstanding Debt by Type
Current and Past Nine Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
2018	\$ 37,602	\$ 16,786	\$ 54,388	6.46%	\$ 1,327
2017	\$ 40,540	\$ 17,791	\$ 58,331	6.45%	\$ 1,430
2016	\$ 35,952	\$ 21,648	\$ 57,600	6.84%	\$ 1,405
2015	\$ 33,584	\$ 23,131	\$ 56,715	6.79%	\$ 1,385
2014	\$ 15,826	\$ 27,974	\$ 43,800	5.25%	\$ 1,076
2013	\$ 16,864	\$ 29,708	\$ 46,572	5.55%	\$ 1,137
2012	\$ 18,961	\$ 15,081	\$ 34,042	4.08%	\$ 834
2011	\$ 21,289	\$ 16,248	\$ 37,537	4.62%	\$ 924
2010	\$ 20,811	\$ 17,663	\$ 38,474	4.16%	\$ 893
2009	\$ 21,622	\$ 18,782	\$ 40,404	4.35%	\$ 935

Note: Details of city's outstanding debt can be found in the notes to the financial statements.

(a) See Schedule 15 for personal income and population data.

Schedule 12
City of Covington, Kentucky
Ratios of General Bonded Debt Outstanding
Current and Past Nine Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita	Debt Service Payments Per Capita
2018	\$ 37,602	1.78%	\$ 922.38	\$ 137.75
2017	\$ 40,540	1.93%	\$ 993.70	\$ 343.69
2016	\$ 35,952	1.60%	\$ 813.56	\$ 126.72
2015	\$ 33,584	1.60%	\$ 814.62	\$ 126.88
2014	\$ 15,826	0.75%	\$ 364.91	\$ 112.93
2013	\$ 16,865	0.85%	\$ 411.78	\$ 141.22
2012	\$ 18,961	0.90%	\$ 464.61	\$ 119.77
2011	\$ 21,289	1.00%	\$ 523.84	\$ 111.86
2010	\$ 20,811	0.99%	\$ 483.06	\$ 106.03
2009	\$ 21,622	1.05%	\$ 498.55	\$ 126.62
2008	\$ 23,790	1.20%	\$ 548.54	\$ 107.16

Source: City of Covington Finance Department

Schedule 13
City of Covington, Kentucky
Legal Debt Margin Information
Current and Past Nine Fiscal Years
(dollars in thousands)

Legal Debt Margin Calculation for Fiscal Year 2018	
Assessed value	<u>\$ 2,113,715</u>
Debt limit (10% of assessed value)	<u>\$ 211,372</u>
Debt applicable to limit: General Obligation	<u>\$ 54,388</u>
Total debt applicable to limit	<u>\$ 54,388</u>
Legal debt margin	<u>\$ 156,984</u>

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Debt limit	\$ 211,372	\$ 210,304	\$ 216,662	\$ 213,044	\$ 209,817	\$ 198,394	\$ 211,146	\$ 213,461	\$ 207,746	\$ 205,471
Total net debt applicable to limit	<u>54,388</u>	<u>58,331</u>	<u>57,600</u>	<u>56,715</u>	<u>43,800</u>	<u>46,572</u>	<u>34,042</u>	<u>37,537</u>	<u>38,474</u>	<u>40,403</u>
Legal debt margin	<u>\$ 156,984</u>	<u>\$ 151,973</u>	<u>\$ 159,062</u>	<u>\$ 156,329</u>	<u>\$ 166,017</u>	<u>\$ 151,822</u>	<u>\$ 177,104</u>	<u>\$ 192,172</u>	<u>\$ 169,272</u>	<u>\$ 165,068</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>25.73%</u>	<u>27.74%</u>	<u>26.59%</u>	<u>26.62%</u>	<u>20.88%</u>	<u>23.47%</u>	<u>16.12%</u>	<u>17.58%</u>	<u>18.52%</u>	<u>19.66%</u>

Source: City of Covington Finance Department

Schedule 14
City of Covington, Kentucky
Demographic and Economic Statistics
Current and Past Nine Fiscal Years

Fiscal Year	Population (b)	Personal Income (thousands of dollars)	Per Capita Personal Income (a)	Median Age (b)	School Enrollment (d)	Unemployment Rate (c)
2018	40,766	903,008	22,151	35.6	3,910	3.6%
2017	40,797	903,694	22,151	33.1	3,799	5.3%
2016	40,997	842,406	20,548	35.5	4,165	4.4%
2015	40,944	834,667	20,386	33.1	4,165	5.1%
2014	40,713	834,667	20,501	33.1	4,165	6.5%
2013	40,956	839,270	20,452	35.7	4,053	8.2%
2012	40,811	834,667	20,492	35.7	3,572	8.9%
2011	40,640	813,003	20,005	34.6	3,914	9.7%
2010	43,082	924,927	21,469	35.9	4,066	10.2%
2009	43,235	928,212	21,469	35.9	4,002	10.4%

Sources:

- (a) U.S. Census
- (b) Data USA
- (c) Y Charts
- (d) Covington Independent School District

Schedule 15
City of Covington, Kentucky
Principal Employers
Current and Past Nine Fiscal Years

Employer	2018			2017			2016			2015			2014		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Internal Revenue Service	4,046	1	15.10%	4,088	1	15.25%	4,046	1	15.10%	4,500	1	16.79%	4,500	1	16.79%
Fidelity Investments	3,923	2	14.64%	4,028	2	15.03%	3,923	2	14.64%	3,923	2	14.64%	4,100	2	15.30%
Club Chef	1,270	3	4.74%	742	4	2.77%	1,281	3	4.78%	659	4	2.46%	590	6	2.20%
Covington Board of Education	914	4	3.41%	940	3	3.51%	914	4	3.41%	760	3	2.84%	925	3	3.45%
State of Kentucky	561	5	2.09%	487	5	1.82%	561	5	2.09%	501	5	1.87%	360	5	1.34%
Rosedale Manor	488	8	1.82%	-	-	0.00%	414	7	1.54%	408	7	1.52%	463	7	1.73%
Diocese of Covington Bd of Ed	404	6	1.51%	398	7	1.49%	-	-	0.00%	-	-	0.00%	-	-	0.00%
St. Elizabeth Hospital	397	7	1.48%	414	6	1.54%	445	6	1.66%	431	6	1.61%	800	4	2.99%
Atkins & Pearce Mftg	329	9	1.23%	233	9	0.87%	329	8	1.23%	220	8	0.82%	225	9	0.84%
CTI-Clinical Trial Services Inc	220	10	0.82%	220	10	0.82%	-	-	0.00%	-	-	0.00%	-	-	0.00%
No. KY MH-MR Board	-	-	0.00%	-	-	0.00%	89	9	0.33%	173	9	0.65%	162	8	0.60%
Kenton County Fiscal Court	-	-	0.00%	351	8	1.31%	-	-	0.00%	-	-	0.00%	-	-	0.00%
Ashland Inc	-	-	0.00%	-	-	0.00%	81	10	0.30%	94	10	0.35%	100	10	0.37%
Total	12,552		46.84%	11,901		44.41%	12,083		45.09%	11,669		43.54%	12,225		45.62%

Employer	2013			2012			2011			2010			2009		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Internal Revenue Service	4,500	1	16.79%	4,500	1	16.79%	4,500	1	20.74%	4,500	1	20.74%	3,500	2	17.97%
Fidelity Investments	4,100	2	15.30%	4,100	2	15.30%	4,100	2	18.89%	3,900	2	17.97%	4,900	1	20.74%
Covington Board of Education	925	3	3.45%	925	3	3.45%	925	3	4.26%	925	3	4.26%	925	3	4.26%
St. Elizabeth Hospital	800	4	2.99%	800	4	2.99%	800	4	3.69%	800	4	3.69%	800	4	3.69%
State of Kentucky	360	5	1.34%	360	5	1.34%	360	6	1.66%	360	6	1.66%	360	6	1.66%
Ommicare	-	-	0.00%	325	6	1.21%	325	7	1.50%	325	7	1.50%	325	7	1.50%
Club Chef	320	6	1.19%	320	7	1.19%	300	8	1.38%	300	8	1.38%	300	8	1.38%
Rosedale Manor	310	7	1.16%	310	8	1.16%	280	9	1.29%	280	9	1.29%	-	-	0.00%
No. KY MH-MR Board	280	8	1.04%	280	9	1.04%	225	10	1.04%	225	10	1.04%	280	9	1.29%
Atkins & Pearce Mftg	265	9	0.99%	265	10	0.99%	-	-	0.00%	-	-	0.00%	225	10	1.04%
A.C. Nielsen	-	-	0.00%	-	-	0.00%	400	5	1.84%	400	5	1.84%	400	5	1.84%
Ashland Inc	85	10	0.32%	-	-	0.00%	-	-	0.00%	-	-	0.00%	-	-	0.00%
Total	11,945		44.57%	12,185		45.47%	12,215		56.29%	12,015		55.37%	12,015		55.37%

Source: City of Covington Finance Department

Schedule 16
City of Covington, Kentucky
Full-Time-Equivalent City Government Employees by Function/Program
Current and Past Nine Fiscal Years

	Full-time-Equivalent Employees as of June 30									
<u>Function/Program</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Government										
Management Services	15	16	16	16	14	10	16	17	16	16
Finance	10	7	9	9	10	10	11	13	13	14
Economic Development	8	12	12	8	10	12	7	7	7	7
Code Enforcement	2	1	0	7	8	9	11	12	12	11
Housing	6	7	7	7	7	8	12	15	16	16
Police										
Officers	110	102	102	104	106	104	110	112	116	116
Civilians	8	7	7	7	9	9	24	28	31	31
Fire										
Firefighters and Officers	121	114	114	108	113	121	118	118	118	118
Civilians	1	0	0	0	1	1	1	1	1	1
Other										
Public Improvements	30	30	30	47	47	47	47	47	51	35
Engineering	0	0	0	0	0	1	4	4	4	4
Parks and Recreation	19	19	19	0	1	1	2	2	2	20
Total	330	315	316	313	326	333	363	376	387	389

Source: City of Covington Finance Department

Schedule 17
City of Covington, Kentucky
Operating Indicators by Function/Program
Current and Past Nine Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Police										
Physical arrests	5,148	6,395	5,182	4,663	4,678	4,909	5,420	5,763	5,899	5,248
Parking violations *	12,352	11,637	13,333	13,847	10,952	11,133	15,891	14,520	13,926	15,873
Traffic violation *	3,606	2,925	5,097	5,979	5,117	4,990	4,991	5,149	5,796	5,116
Fire										
Fire responses	2,346	2,413	2,620	3,930	3,126	2,798	2,716	2,731	2,657	2,818
Ambulance runs	9,420	9,449	9,604	9,603	9,304	9,106	9,523	9,112	8,595	10,542
Inspections	2,909	2,465	2,310	1,481	1,963	1,839	1,853	2,058	1,966	2,212

*Note this number is the number of citations issued but there may be multiple violations to one citation

Sources: City of Covington Police and Fire Record Management System

Schedule 18
City of Covington, Kentucky
Capital Assets Statistics by Function/Program
Current and Past Nine Fiscal Years

	Fiscal Year									
<u>Function/Program</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	114	118	126	126	128	83	83	83	83	83
Fire stations	5	5	5	5	5	5	5	5	5	5
Other Public Works										
Streets (miles)	260	235	235	235	191	191	120	120	120	120
Streetlights	3,231	3,785	3,785	3,785	3,785	3,785	3,246	3,246	3,246	3,246
Miles of Sidewalks	1,545	1,545	1,545	1,545	1,545					
Parks and recreation										
Parks	24	24	24	24	22					
Acreage	859	859	859	859	850	850	850	850	850	850
Playgrounds	14	13	13	13	28	28	28	28	28	28
Baseball/softball diamonds	7	9	7	7	9	9	10	10	10	10
Soccer/football fields	2	2	2	2	2	4	5	5	5	5
Swimming pools	2	2	2	2	2	3	4	4	4	4
Water Park	1	1	1	1	1					
Golf Courses	1	1	1	1	1					

Source: City of Covington Police Department
City of Covington Fire Department
City of Covington Department of Public Improvements

Schedule 19
City of Covington, Kentucky
Direct and Overlapping Governmental Activities Debt
June 30, 2018
(amounts in thousands)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (3)	Estimated Share of Overlapping Debt
Kenton County	\$ 105,355 (1)	24.73%	\$ 26,054
Covington Independent School District	21,348 (2)	100.00%	21,348
Subtotal, overlapping debt	<u>\$ 126,703</u>		<u>47,402</u>
City of Covington direct debt			54,388
Total direct and overlapping			<u>\$ 101,790</u>

Source: Kentucky local Debt Report

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Covington. This process recognizes that when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) Kenton County Treasurer's office

(2) Covington Independent School District, Finance Department

(3) The percentage of overlapping debt applicable to the City of Covington is estimated using the percentage of Covington residents in each of the overlapping districts by the 2010 U.S. Census

Addendum A

CITY OF COVINGTON
Covington, Kentucky

SINGLE AUDIT REPORTS
June 30, 2018

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CITY OF COVINGTON, KENTUCKY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor's Number	Revenues	Expenditures
<u>U.S Department of Housing and Urban Development</u>				
Section 8 Housing Choice Voucher	14.871	KY-133-VO-0054-0F04	\$ 6,439,032	\$ 6,219,565
Community Development Block Grants/ Entitlement Grants	14.218	B-17-MC-21-0001 Loans outstanding	1,488,107 -	1,488,087 150,000
			1,488,107	1,638,087
HOME Investment Partnership Programs	14.239	M-17DC-21-0200 Loans outstanding	786,353 -	776,810 378,717
			786,353	1,155,527
Total U.S. Department of Housing and Urban Development			8,713,492	9,013,179
<u>DEPARTMENT OF JUSTICE</u>				
Bulletproof Vest Partnership Program	16.607	N/A	9,090	9,090
Equitable sharing program	16.922	N/A	122,575	105,174
Pass through from Kenton County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0159	3,788	3,788
Total Department of Justice			135,453	118,052
<u>Department of Transportation</u>				
Pass through from Kentucky Transportation Cabinet				
Highway Planning and Construction - 3rd and Johnson	20.205	PO2 6251500001640	435	435
Highway Planning and Construction - River Center Boulevard	20.205	PO2 6251500001640	39,094	39,094
Highway Planning and Construction - Latonia Avenue Project	20.205	PO2 6251500001640	236,419	236,419
Highway Planning and Construction - Licking River Greenway	20.205	PO2 6281700005520	84,366	84,366
Highway Planning and Construction - River Front Commons	20.205	059 0008 004-008	12,869	12,869
Highway Planning and Construction - River Front Commons	20.205	PO2 6281600006249	785,213	785,213
Highway Planning and Construction - Covington 6th Street Restoration	20.205	PO2 6251400003076	10,000	10,000
Highway Planning and Construction - Electric Alley	20.205	PO2 6281600002702	1,492	1,492
State and Community Highway Safety	20.600	AL-2014-09-00-00	44,232	44,232
Total Department of Transportation			1,214,120	1,214,120
<u>Department of the Interior</u>				
Pass through from Kentucky Heritage Council				
Historic Preservation Fund Grants-In-Aid	15.904	N/A	2,988	2,988
Total Department of the Interior			2,988	2,988
<u>Department of Homeland Security</u>				
Staffing for Adequate Fire and Emergency Response	97.083	N/A	655,920	655,920
FEMA Port Security Grant Program	97.056	DHS-18-GPD-056-00-01	21,199	21,199
FEMA Assistance to Firefighters Grant	97.044	EMW-2016-FO-05209	170,910	170,910
Total Department of Homeland Security			848,029	848,029
Total Federal Financial Assistance			\$ 10,914,082	\$ 11,196,368

The City did not pass through any funds to subrecipients.

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS - NOTES
for the year ended June 30, 2018

Note 1 - Basis of Presentation.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Covington, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from those numbers.

Note 2 - Indirect Cost Rates.

The City did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

Note 3 - Passthrough entity numbers were presented when available.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Mayor and City Commissioners
City of Covington, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Covington, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Covington, Kentucky's major federal programs for the year ended June 30, 2018. The City of Covington, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Covington, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Covington, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Covington, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Covington, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City of Covington, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Covington, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Kentucky's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated November 29, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Kentucky's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

RHF

RHF, PLLC
Lexington, Kentucky
November 29, 2018



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and City Commissioners
City of Covington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Covington, Kentucky's basic financial statements and have issued our report thereon dated November 29, 2018, wherein we noted that the financial statements of Devou Properties, Inc. were audited by other auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Covington, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Covington, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider findings 2018-001 and 2018-002 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2018-003, as described in the accompany schedule of findings and questioned costs, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Covington, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* (2018-004).

City of Covington, Kentucky's Response to Findings

The City of Covington, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Covington, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
November 29, 2018

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2018

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	<u>X</u> Yes	<u> </u> No
Significant deficiencies identified that are not considered to be material weaknesses	<u>X</u> Yes	<u> </u> None reported
Non-compliance material to financial statements noted	<u>X</u> Yes	<u> </u> No

Federal Awards:

Internal control over major programs:

Material weaknesses identified	<u> </u> Yes	<u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses	<u> </u> Yes	<u>X</u> None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 Yes X No

Major Program:

CFDA Numbers

Name of Federal Program or Cluster

14.239	Home Investment Partnerships Program (HOME)
14.871	Section 8 Housing Choice Vouchers
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as a low-risk auditee?

 Yes X No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 2018-001 – Material Weakness – Audit Adjustments (Recurring)

Condition: During the course of our audit, we identified material misstatements that were not identified by the City's internal controls over financial reporting. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in operation exists when a properly designed control does not operate as designed. In this case, the internal controls over the preparation and review of the City's financial statements did not operate as designed and we consider this a material weakness.

Effect: Audit adjustments were necessary to properly record receivables, payables, accrued liabilities, debt transactions and interfund activity. The City was also unable to adequately track grant reimbursements that had been received for transportation projects or determine the amount of reimbursement that was due from the grantor. As a result, material audit adjustments were necessary to adjust receivables and record unearned revenue related to transportation grant projects. In addition, there were multiple accrued liabilities, such as retirement contributions payable, that had not been reconciled to a detail listing by the City, resulting in audit adjustments.

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2018

Recommendation: We recommend the City enhance its internal controls over financial reporting with steps such as management review of account reconciliations and listings, improved monitoring of grant expenses and reimbursements, analysis of the financials compared to prior years and improved internal communication to ensure the preparation of reliable financial statements in conformity with generally accepted accounting principles.

Management's Response: The City agrees with the auditor's comments. The City intends to enhance its internal controls over financial reporting by initiating more thorough management review of account reconciliations and listings, improved monitoring of grant expenses and reimbursements, and performing comprehensive analyses of the City's financials. These efforts will be accomplished through improved internal communication and an updated accounting procedures manual, that will ensure the City prepares reliable financial statements in conformity with generally accepted accounting principles. In addition, the City has included a requirement for continuing professional education training by its external auditing firm as part of the FY19 External Auditing Services RFP. This will ensure City accounting staff are up to date on GASB pronouncements going forward.

Finding 2018-002 – Material Weakness – Lack of Adequate Segregation of Duties (Recurring)

Condition: During our audit, we noted that the City lacked adequate segregation of duties within the finance department, primarily due to turnover and staff departures that occurred during the prior fiscal year. The City began to address this issue during the fiscal year through the hire of additional personnel within the finance department and the reassignment of some incompatible duties.

Criteria: The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, proper segregation of duties should include oversight of finance department activity by individuals with knowledge of internal controls and accounting regulations, who were not involved in the original transaction.

Effect: The City's finance department was not staffed at the level that is necessary to ensure proper segregation of duties during the majority of the year ended June 30, 2018. As a result, internal control and oversight responsibilities that would normally be segregated among multiple staff members were the responsibility of single individuals.

Recommendation: Through the hiring of additional personnel towards the end of the fiscal year and adjustments to staff responsibilities, it appears that the City has addressed issues related to lack of segregation of duties. We recommend that the City continue to review and monitor finance department activity and responsibilities to ensure that adequate segregation of duties is maintained.

Management's Response: The City agrees with the auditors' recommendation. Through the hiring of additional finance personnel towards the end of the fiscal year and adjustments to staff responsibilities, the City has addressed the issues related to lack of segregation of duties. The City will continue to review and monitor department activities and responsibilities, to ensure that adequate segregation of duties is maintained going forward.

Finding 2018-003 – Significant Deficiency – Capital Asset Recording (Recurring)

Condition: Multiple issues were noted with capital asset tracking and recording. It was determined that several capital assets purchased during the current fiscal year were not added to the depreciation schedule prepared by the client. In addition, it was noted that multiple capital assets that were sold during the current fiscal year had either not been removed from the depreciation schedule or had never been added to the depreciation schedule when they were purchased. Finally, there were errors in the calculation of additions on the manual depreciation schedule spreadsheets prepared by the City.

Effect: Audit adjustments were necessary to capitalize current year capital additions and record current year disposals. In addition, modifications to the depreciation schedules prepared by the City were required to appropriately state capital assets and related depreciation.

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2018

Recommendation: We recommend the City utilize their third-party software to properly track and record capital assets. The third-party software can address some of the issues related to capital asset recording by allowing for assets to be capitalized at the time of purchase and by reducing the likelihood of errors when preparing depreciation schedules. We also recommend that the City reconcile the capital asset listing to a physical inventory of the City's assets on at least an annual basis to identify any assets that have been disposed or may not have been capitalized when initially purchased.

Management's Response: The City agrees with the auditors' recommendation and will use the third-party software to properly track and record capital assets. The use of the third-party software will help address the issues related to capital asset recording by allowing for assets to be capitalized at the time of purchase and thus reduce the likelihood of errors when preparing depreciation schedules. The City will also continue the process of reconciling capital asset listing to a physical inventory of the City's assets on at least an annual basis. This will ensure that any assets that have been disposed or may not have been capitalized when purchased will be identified.

Finding 2018-004 – Budgetary Noncompliance (Recurring)

Condition: As of June 30, 2018, we noted that two funds have expenditures in excess of their budget ordinance appropriations.

Criteria: Kentucky Revised Statute (KRS) 91A.030 prohibits the expenditure of moneys except in accordance with a budget ordinance.

Effect: The City was not in compliance with Kentucky statutes.

Recommendation: We recommend that the City monitor budgeted expenditures and amend when the City expects to incur expenditures in excess of appropriations.

Management's Response: The City agrees with the auditors' comments and have implemented remedial efforts to prevent future non-compliance with KRS 91A.030. The Finance Department will ensure that all Budget Ordinances and Amendments are reviewed for compliance with KRS 91A.030 before being presented to the City Commission.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

Finding 2017-001 – Material Weakness – Audit Adjustments

Audit adjustments were necessary to properly record receivables, payables, unearned revenue, accrued liabilities and interfund activity and to restate beginning fund balance.

Status: Repeated as Finding 2018-001

Finding 2017-002 – Material Weakness – Fixed Asset Recording

Audit adjustments were necessary to restate net position, capitalize prior year additions and reclassify current year capital additions.

Status: Repeated as Finding 2018-003

**CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2018**

Finding 2017-003 – Material Weakness – Lack of Adequate Segregation of Duties

The City lacked adequate segregation of duties within the finance department, primarily due to turnover and staff departures that occurred during the year ended June 30, 2017.

Status: Repeated as Finding 2018-002

Finding 2017-004 – Significant Deficiency – Accounting Procedures

The City lacked a comprehensive accounting procedures manual.

Status: The City has contracted with an accounting firm to perform a review of their accounting department and is currently in the process of obtaining an updated accounting procedures manual from that firm.

Finding 2017-005 – Budgetary Noncompliance

The City was not in compliance with Kentucky statutes related to budgeting.

Status: Repeated as Finding 2018-004

CITY OF COVINGTON KENTUCKY
20 W. PIKE STREET, COVINGTON, KY 41011